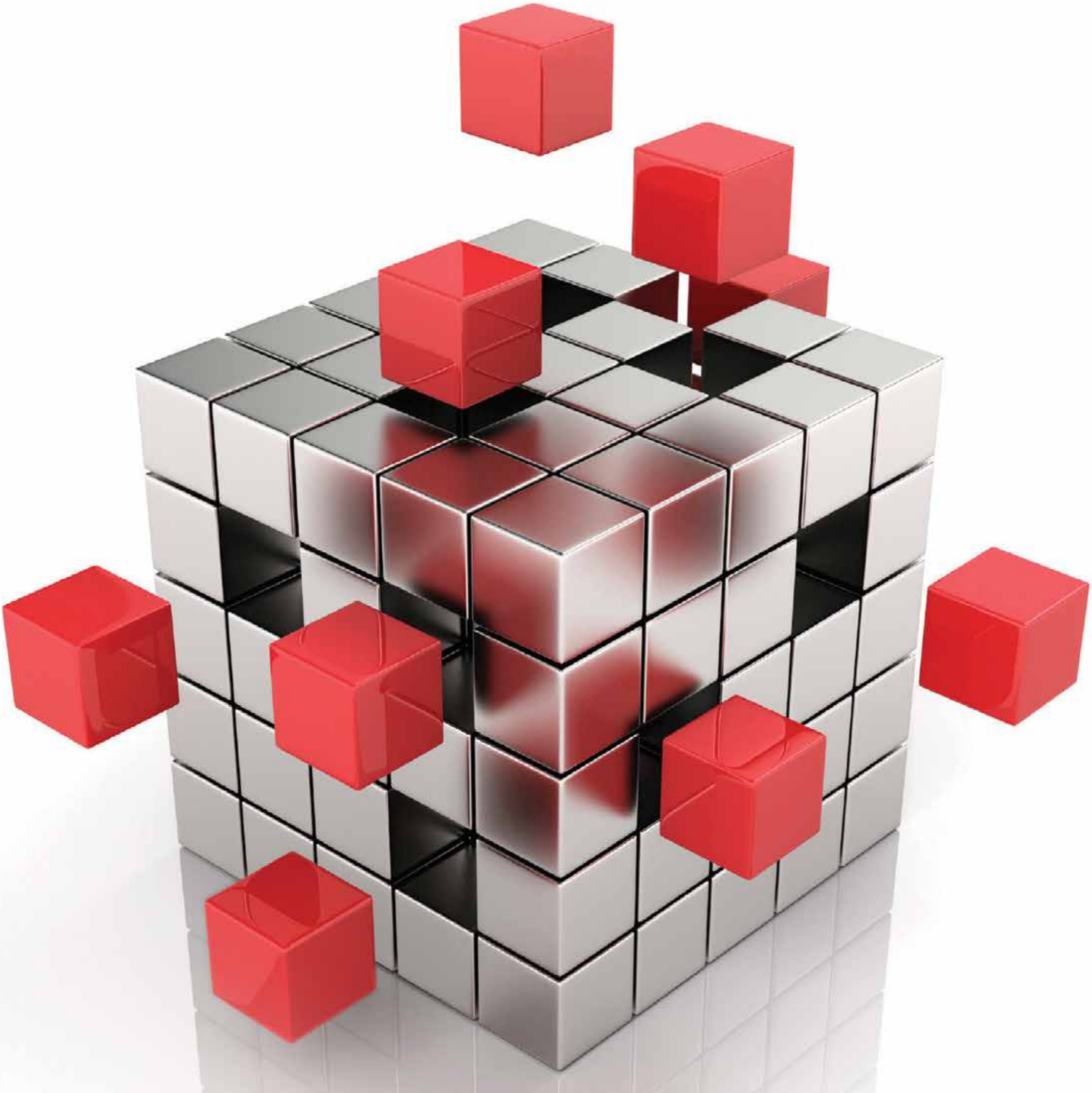
JULY 2014

PUBLIC SECTOR ACCOUNTING & FINANCE
PROFESSIONAL LEVEL



ICAM THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

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PREFACE

INTRODUCTION

The Institute noted a number of difficulties faced by students when preparing for the Institute's examinations. One of the difficulties has been the unavailability of study manuals specifically written for the Institute's examinations. In the past, students have relied on text books which were not tailor-made for the Institute's examinations and Malawian environment.

AIM OF THE MANUAL.

The Manual has been developed in order to provide resources that will help the institute's students attain the needed skills. It is therefore recommended that each student should have their own copy.

HOW TO USE THE MANUAL

Students are being advised to read chapter by chapter since subsequent work often builds on topics covered earlier.

Students should also attempt questions at the end of each chapter to test their understanding. The manual will also be supported with a number of resources which students should keep checking on the ICAM website.

B5: PUBLIC SECTOR ACCOUNTING AND FINANCE

Aim of the course:

i. To enable students develop an in-depth understanding of Government Accounting and Finance.
ii. To introduce students to the regulatory framework of Public Sector Accounting and Financial Reporting, and to equip them with knowledge to enable them function effectively in the public sector.
iii. To be able to differentiate the General Government, Government Business Enterprises and Private Entities and the controls relating to the entities.

Scope

- The legal framework: The Constitution, The Public Finance Management Act (2003), The Taxation Act, The Reserve Bank Act, The Money Laundering Act, The Public Procurement Act, The Public Audit Act, The Anti- Corruption Act and other relevant Acts.
- The regulatory framework: Accounting concepts and individual judgement, accounting standards, and other international influences, and generally accepted accounting principles (GAAP), and fair presentation.
- Planning and budgeting
    - Medium Term Expenditure Framework Budget
    - Output Based Budget
    - Activity Based Budget
    - Program Based Budget
    - Incremental Budget
    - Zero based budget.
    - Any other budget systems.
- Budget Implementation
- Accounting and Reporting
    - Overview of the International Public Sector Accounting Standards
    - Financial reporting in the Public Sector.
- Public Sector Internal Controls.
    - Classifications of transactions (Chart of Accounts)
- Public Procurement Procedures.
- Oversight Functions.
- Current Developments in Public Financial Management
- Revenue management
- Expenditure Control
- Accountability and value for money in the public sector and Public Private Partnerships.
- Public Finance Management Assessment Frameworks.

OBJECTIVES

By the end of the course students should be able to:-

i. Explain the main features of the public sector entities and accounting systems.
ii. Discuss the public sector reporting framework.
iii. Apply requirements of all relevant International Public Sector Accounting Standards in an exam question.
iv. Prepare a complete set of General Purpose Financial Statements in the Public Sector.
v. Prepare Consolidated Financial Statements in the Public Sector.
vi. Evaluate current reporting issues and developments in the Public Sector.
vii. Evaluate the regulatory and financial reporting framework.
viii. Evaluate current public financial management issues.
ix. Explain the role of tax revenues in the budgeting process.
x. Explain and compute the income tax liabilities.
xi. Explain and evaluate the concepts of revenue management and expenditure management.
xii. Explain the different public finance management assessment frameworks.

Format and Standard of the Examination Paper

The paper will consist of 5 questions each carrying 20 marks. Candidates will be required to answer all questions.

Specification Grid

The grid shows the relative weightings of topics within this course and should guide the guide the relative study time spent on each.

Syllabus Coverage	Weighting (%)
Introduction (Definitions, Government set-up, Controlling Officers) and Context of Public Financial Management and Accounting	15
Legal and regulatory framework for public financial management and overview of International Public Sector Accounting Standards	15
Public Procurement	5
Budgeting Processes in the public sector	20
Revenue Management and Expenditure Control	15
Financial reporting for Central, Local Government and Statutory Corporations	15
Accountability and value for money in the public sector.	10
Accounting for Public Private Partnerships.	5
Total	**100**

Learning Outcomes

A) Introduction

a) Students will be able to understand how government accounting and finance systems work and the terms used within the government accounting and finance systems.

a) Students will be able to understand the set-up and systems of the three arms of government (Executive, Judiciary, and Legislature) and the various government ministries, departments and agencies.

b) Candidates will be able to understand the differences and similarities between the public and private sector entities.

c) Candidates will be able to understand the duties of the Minister of Finance, Secretary to the Treasury, Accountant General, Budget Director, Reserve Bank Governor and other controlling or accounting officers.

d) Candidates will be able to understand public funds and their constituents.

e) Candidates will be able to understand the process of payment into and out of the consolidated fund.

f) Candidates will be able to understand how to regulate the different components of the consolidated fund.
g) Candidates will be able to understand the process of appropriation of public money.
h) Candidates will be able to understand the modalities of withdrawing from the consolidated fund.
i) Candidates will be able to understand the processes of dealing with the appropriation balances.
j) Candidates will be able to understand the process of investing public money in securities.
k) Candidates will be able to understand accounting systems prescribed for subvented statutory corporations and other public boards.

In the assessment, candidates will be required to:

a) Define and explain the various terms used within the government accounting and finance system.
b) Define and explain the composition and use of the consolidated fund account.
c) State and explain the three arms of government and the interrelationships within the three arms of government.
d) State the roles and responsibilities of various government ministries, departments and agencies.
e) The duties of the Minister of Finance, Secretary to the Treasury, Accountant General, Budget Director, Reserve Bank Governor and other controlling or accounting officers.
f) Public funds and their constituents.
g) Process of payment into and out of the consolidated fund.
h) The process of appropriation of public money.
i) The modalities of withdrawing from the consolidated fund.
j) The processes of dealing with the appropriation balances.
k) The process of investing public money in securities.

B) Legal and regulatory framework for public financial management.

a) The Candidates will be able to understand the legal framework governing public sector accounting and finance. The legal instruments are the constitution of Republic of Malawi, 1994, the Public Finance Management Act No. 7 of 2003, the Public Procurement Act (2003), the Public Audit Act (2003), the Reserve Bank of Malawi Act, the Money Laundering Act, the Anti-corruption Act and any other relevant Acts that have a direct impact on public sector accounting and finance.

b) Candidates will be expected to understand an overview of the International Public Sector Accounting Standards (IPSAS) and current developments.

i) The candidates will be able to understand the overview of International accounting standards for the public sector.

ii) The candidates will be able to understand the nature, scope and objectives of IPSAS.

iii) The candidates will be able to know the general outline of IPSAS (the content, scope, application and disclosures).

In the assessment, candidates will be required to:

a) Explain the legal framework governing public sector accounting and finance in Malawi.
b) Explain a general outline of International Public Sector Accounting Standards (IPSAS).
c) State the nature, content, scope, application, disclosures and objectives of IPSAS

C) Public Procurement

a) The Candidates will be able to know the governing structure of the internal procurement committee.
b) The candidates will be able to understand the procurement structures in the public procurement act
c) The candidates will be able to understand the procurement rules in the Public Procurement Act.
d) The candidates will be able to understand the methods of procurement in the Public procurement act and the impact on expenditure management.
e) The candidates will be able to understand tendering procedures with particular reference to invitation of tenders, submission of tenders, and evaluation and comparison of tenders.
f) The candidates will be able to understand the procedures for engaging the services of consultants.
g) The candidates will be able to understand the procedures for disposal of stores, plant and equipment.

In the assessment, candidates will be required to:

a) Explain applicable procurement procedures.
b) Explain the role of Accountants in public procurement.

c) Evaluate a given procurement scenario

D) Budgeting Processes in the Public Sector

a) The candidates will be able to understand budgeting principles in the public sector context.
b) The candidates will be able to understand the budgeting processes in the budget cycle: budget framework agreement, budget formulation, budget authorisation, budget approval, budget execution, reporting, monitoring and evaluation.
c) The candidates will be able to understand the objectives of budgeting in public sector.
d) The candidates will be able to understand the different approaches to budgets in the public sector such as incremental budgeting, zero based budgeting, program based budgeting, output/outcome budgeting, and hybrid approaches of budgeting.
e) The candidates will be able to understand the categories of budgets eg: approved, revised and supplementary budgets, Expenditure Budgets: Recurrent, Development, Voted and Statutory budgets.
f) The candidates will be able to know the formats and contents of public sector budget.
g) The candidates will be able to understand the concept of virements and the circumstances allowed.
h) The candidates will be able to understand the medium term expenditure framework (MTEF) and long term development plans.
i) The candidates will be able to understand a budget outturn based on IPSAS 24: Presentation of Budget Information in Financial Statements and the requirements of Cash Basis IPSAS.
j) The candidates will be able to understand to process of approving the development project or capital expenditure to be included in the budget through the Public Sector Investment Programme (PSIP).
k) The candidates will be able to know that budgeting as a tool for public accountability.
l) The candidates will be able to understand the relationship between the government policy and an annual budget.
m) The candidates will be able to recognise the limitations of budgeting.
n) The candidates will be able to understand commitments to the budget.
o) The candidates will be able to calculate budget variances from actuals.

In the assessment, candidates will be required to:

a) Explain the various types and categories of budgets.
b) Explain the objectives of budgeting.
c) Explain the differences between cash and accrual based budgeting.
d) State the various budget processes.
e) Explain the role of taxation in the budgeting process.
f) Prepare a budget from a set of given figures or scenarios.

g) Calculate budget variances and explain the information.
h) Critique a given set of budget.
i) Explain the concept or principle of commitments as a tool for budget control.
j) State the factors that determine the budget allocations in different sectors.
k) Explain the limitations of budgets.

E) Revenue Management and Expenditure Control

Candidates will be able to learn and understand the necessary tools required to manage revenue generation and expenditure control.

a) The candidates will be able to recognise different sources of revenues for the different forms of public sector organisations such as central government, local government, state owned enterprises and non- governmental organisations (NGO’s).
b) The candidates will be able to understand the objectives of taxation within the public sector context.
c) The candidates will be able to understand the different types of taxes and their implications.
d) The candidates will be able to understand the different types of non-tax revenues: fuel levy, PIL receipts, and departmental receipts, loans and grants.
e) The candidates will be able to understand revenue accounting and reconciliation.
f) The candidates will be able to understand the internal controls over revenue.
g) The candidates will be able to understand the tools for expenditure management and control.
h) The candidates will be able to understand the features and general features government chart of accounts (Government Finance Statistics, IPSAS, PBB).
i) The candidates will be able to understand the Malawi Integrated Financial Management Information System.
j) The candidates will be able to understand expenditure/payments management relating to general expenditures, salaries and pensions.
k) The candidates will be able to understand the management of expenditure relating to non-current assets including maintenance of asset registers, depreciation and disposals. IPSAS 17: Property Plant and Equipment; IPSAS 11: Construction Costs, IPSAS 21, and IPSAS 26.
l) Candidates will be able to understand the process of acquisition, keeping, issuing, disposal and accounting for government stores.
m) The candidates will be able to understand cash management and control.
n) Candidates will be able to understand the regulation of collection and custody of tax and non-tax revenues.

In the assessment, candidates will be required to:

a) Explain the sources of revenues for different forms of public entities.
b) Enumerate the internal controls over revenues and expenditures.
c) Design a chart of accounts applicable to public sector.
d) Explain how the Integrated Financial Management Information System works.
e) Explain the role and functions of the Integrated Financial Management Information System.
f) Explain the role of Malawi Revenue Authority.
g) Prepare a cash flow forecast.
h) Demonstrate how non-tax revenues are a significant component of government revenues.
i) The process of acquisition, keeping, issuing, disposal and accounting for government stores.

F) Financial reporting for Central, Local Government and Subvented Statutory Corporations

The candidates will be able to understand the specific financial reporting requirements of central government, local government and subvented statutory corporations.

The candidates will be able to understand the preparation of financial statements on Cash Basis IPSAS.

a) The candidates will be able to understand the preparation of a consolidated operating statement showing revenue and expenditure and the surplus or deficit for the period.
b) The candidates will be able to understand the preparation of a statement of financial position showing the assets, liabilities, and net financial position as at balance date of the reporting period.
c) The candidates will be able to understand the preparation of a statement of funds showing, for each fund, balances at the beginning and end of the reporting period, and the nature of the movement in the reporting period.
d) The candidates will be able to understand the preparation of a statement of funds showing, for each fund, balances at the beginning and end of the reporting period, and the nature of the movement in the reporting period.
e) The candidates will be able to understand the preparation of a statement of cash balances showing a breakdown of the balances held by type of holding.
f) The candidates will be able to understand the preparation of the financial statements based on Cash Basis IPSAS.
g) Candidates will be able to understand the preparation of financial statements for public funds and consolidated funds with reference to basis of accounts, classification of accounts, frequency of reporting, content of the financial statements, and format of presentation.

h) The candidates will be able to understand the analysis and interpretation of financial statements through use of ratios and other methods.
i) The candidates will be able to understand the preparation of consolidated financial statements: IPSAS 6, 7, 8 and 20.
j) The candidates will be able to understand the preparation of financials statements in NGO's.

In the assessment, candidates will be required to:

a) Prepare a set of financial statements as follows
    i) A consolidated operating statement
    ii) A statement of financial position
    iii) A statement of cash flows
    iv) A statement of funds
    v) A statement of cash balances
b) Prepare the financial statements based on Cash Basis IPSAS.
c) Prepare consolidated financial statements: IPSAS 6, 7, 8 and 20.
d) Prepare financial statements for public funds and consolidated funds with reference to basis of accounts, classification of accounts, frequency of reporting, content of the financial statements, and format of presentation.(International Public Sector Accounting Standards)
e) Prepare financial statement extracts for disposal of stores and non-current assets.
f) Analyse and interpret financial statements through use of ratios and other analysis methods.
g) Explain accounting systems prescribed for subvented statutory corporations and other public boards.
h) Prepare the financial statements in NGO's.

G) **Accountability and value for money in the public sector.**

The candidates will be able to understand the responsibilities of Minister of Finance, and other ministers in regard to public accountability.

The candidates will be able to understand the responsibilities of Secretary to the Treasury, Controlling Officers and other government officers regarding accountability and value for money in public sector accounting and finance.

a) The candidates will be able to understand the concept of public accountability.
b) The candidates will be able to understand mechanisms of ensuring public accountability.
c) The candidates will be able to understand mechanisms of ensuring value for money in the public sector: the three E's Economy, Efficiency and Effectiveness and the avoidance of waste.
d) The candidates will be able to understand the corporate governance principles for governing public sector entities.

e) The candidates will be able to understand the roles of the following structures in ensuring public accountability: the office of Department of Accountant General, Office of National Audit Office, and the office of the Central Internal Audit, Public Accounts Committee of parliament, Budget and Finance committee of parliament.
f) Candidates will be able to understand the basis of audit of the consolidated fund accounts and other public funds accounts.

In the assessment, candidates will be required to:

a) State the mechanisms put in place to ensure public accountability and value for money in the public sector.
b) Evaluate the existence or non-existence of a public accountability system in any given case study.
c) Describe the concepts of accountability and value for money and how they are interlinked.
d) Describe the roles of the following in ensuring public accountability and value for money: Auditor General, Accountant General, and Secretary to the Treasury, Minister of Finances, Ministers, Public Accounts Committee, budget and finance committee of parliament.
e) The basis of audit of the consolidated fund accounts and other public funds accounts.

H) Accounting for Public Private Partnerships

The candidates will be able to understand the definition, concepts, advantages and disadvantages of Public Private Partnerships including accounting and financing for Public Private Partnerships.

a) The candidates will be able to understand the meaning of public private partnerships.
b) The candidates will be able to differentiate the types of Public Private Partnerships.
c) The candidates will understand and differentiate the financing arrangements of PPP's.
d) The candidates will understand the uses and advantages, and disadvantages of public private partnerships.
e) The candidates will understand the concepts of IPSAS 13 and 32, and accounting for PPPs.

In the assessment, candidates will be required to:

a) Describe what a Public Private Partnership is.
b) State the advantages and disadvantages of PPPs.

d) State the different types of PPPs arrangements.
e) Evaluate and make recommendations regarding the different methods of financing PPPs.

Recommended Reference Texts

ICAM Public Sector Accounting and Finance Manual, 2014

IPSAS Explained, Ernst and Young, Second Edition, 2012. John Wiley & Sons Limited.

IPSASB (2014), International Public Sector Accounting Standards

Agariga, E. (2014), Public Sector Accounting. Ziphin Business World.

Ampadu, A. (2014) Public Sector Accounting. EPP Book Service.

Odulo, R. (2014) Public Sector Accounting. Second Edition.

Other current reference manuals.

The Constitution of the Republic of Malawi, 1994.

The Public Finance Management Act (2003),

The Public Procurement Act (2003)

The Public Audit Act (2003)

The Money laundering Act

The Reserve Bank of Malawi Act

Government Finance Statistics

CONTENTS

Chapter 1

Introduction to Public Sector Accounting and Finance

1.0 Introduction

The Government of Malawi has a responsibility to the entire nation to provide social, security, and general welfare and upliftment of all its citizens. In order for the government to perform its duties and responsibilities, it uses several tools amongst which is the public sector accounting and finance function.

The public sector financial management systems are also used for accountability of government to the general public as government officers act in stewardship responsibility on behalf of the citizenry of the country. Several developments in public finance in recent decades especially in the 21st Century have made the subject of public sector accounting and finance an important part of accounting studies world over. . With the economic recession, a lot of focus has gone to public sector accounting and finance due to its significant influence on economies. The analysis of the concepts and techniques of accounting applied to public sector and the private sector show that there are notable differences between the two accounting systems, mainly, in the area of accounting methods and financial management principles.

The public sector accounting and finance system is comprehensive as it starts from budgeting, budget execution and implementation, procurement, accounting and reporting. It also includes systems put in place to fulfil the oversight functions such as external auditing. The systems in public sector accounting and finance are closely interlinked and therefore, weaknesses in one component affect the proper functioning of others.

1.1 Learning objectives

At the end of this chapter, students will be able to:

a) Define the various terms used within the government accounting and finance system.
b) Explain the various terms used within the government accounting and finance system.

c) Explain the composition and use of the consolidated fund account.
d) Describe the three arms of government and the interrelationships within the three arms of government.
e) State the duties, roles and responsibilities of public officers and various government ministries, departments and agencies.
f) Discuss the responsibilities of Minister of Finance, Ministers of line ministries, Secretary to the Treasury, Controlling officers and their staff, and the Accountant General under the Public Finance Management Act.
g) Describe the similarities and differences of public and private sector entities.

1.2 Definition of Public Sector Accounting and Finance

Public Sector refers to government and all organisations which are not privately owned and operated but which are established, run and financed by government on behalf of the public.

Public Sector accounting and finance is an accounting method applied to non profit pursuing entities in the public sector – including central and local government and quasi government special corporations.

RA Adams (2004) defined Public Sector Accounting as a process of recording, communicating, summarising, analysing and interpreting government financial statements and statistics in aggregate and details; it is concerned with the receipt, custody and disbursement and rendering of stewardship on public funds entrusted.

(a) To fulfil legal requirement. The law requires that government accounts are prepared and audited annually.

(b) To perform the stewardship function. The ruling government is the steward of the resources and finances of the Nation. Government has to give account of how these finances are used.

(c) To enable Government to plan well the future activities and programmes of the Nation.

(d) To provide a process of controlling the use of the financial and other resources.

(e) To provide the means by which actual performance may be compared with the target set.

(f) To evaluate the economy, efficiency and effectiveness with which governance is carried out.

1.3 Importance of Public Sector Accounting and Finance

Public Sector Accounting and Finance forms the cornerstone for providing an environment for public stewardship and accountability including enabling the citizenry to have financial probity over the collection and use of resources for social and public services. In order, to maintain good social services to the public, it is imperative that Public Sector Accounting and Finance is managed properly to achieve the objectives of Countries and uphold the provisions of the laws and regulations.

For example, in a developing country like Malawi, where there is huge dependency on donor support, a weak public accounting and finance system, may entail withdrawal of donor aid or budgetary support which might lead to difficulties in financing basic social services like health and education. The importance of public sector accounting and finance can therefore not be overemphasised.

All government decisions have to be ultimately broken down into financial terms. It can also be said that modern states, cannot function effectively without public sector accounting and finance.

1.4 Objectives of Public Sector Accounting and Finance

The main purposes of public sector accounting are:

a) Ascertaining the legitimacy of transactions and their compliance with established norms, regulations, and statutes.
b) Providing evidence of stewardship.
c) Assisting planning and control.
d) Providing the basis for decision making.
e) Assisting objective and timely reporting.
f) Enhancing the appraisal of the efficiency of management.
g) Highlighting the various sources of revenue received and expenditure to be incurred.
h) Identifying the sources of funding capital projects.
i) Evaluating the economy, efficiency and effectiveness with which public sector organisations pursue their goals and objectives.
j) Ensure that costs are matched by at least equivalent benefits accruing there from.
k) Providing the details of outstanding long term commitments and financial obligations.
l) Providing the means by which actual performance maybe compared with the target set.
m) Profiling solutions to the various bottleneck and/ or problems identified.

1.5 Three arms of Government

The three arms of government consist of the executive, the legislature and the judiciary.

The executive consists of the president, the cabinet, the ministries, departments and other agencies.

i. The executive is responsible for the initiation of policies and legislation, for the implementation of all laws which embody the express wishes of the people of Malawi thereby promoting the principles of the constitution.

ii. The legislature consists of the national assembly, and members of parliament.

    The legislature is responsible for passing the laws of the country, reviewing the performance of government ministries, departments, and agencies though sitting committees of the National Assembly.

iii. The judiciary is the legal arm of government, responsible for interpreting, and protecting, enforcing the laws in an independent and impartial manner with regard only to legally relevant facts and prescriptions of the law.

1.6 Duties, Roles and responsibilities of various entities government ministries, departments and agencies, and key public officers:

Key Public Officers for Financial Management0

According to the Public Finance Management Act (2003), Section 3(1), the Minister of Finance is responsible for Financial Management.

The other key player is the Secretary to Treasury. This is in accordance with Section 7(1). The Act states that the Secretary to Treasury shall be the principal financial adviser to the Government and the administrative head of Treasury.

Cabinet Ministers have also been given responsibilities for financial management. In addition, other Controlling Officers have been cited in the Act as key public officers in financial management (Section 10(1)).

The Auditor General and the Accountant General have also been mentioned as being influential in financial management by the Treasury Instructions. It should be noted that even though some officers have not been mentioned as being responsible for financial management, everybody has a role to play in financial management. Some of the notable officers are the Reserve Bank Governor and the Budget Director.

1.6.1 Ministry of Finance

The role of the Ministry of Finance, through the Secretary to the Treasury, is to formulate sound economic and fiscal policies and to mobilize and prudently manage financial and material resources of the Government of Malawi in line with the agreed policies and priorities in order to contribute to the development of the country. This includes a supervisory role in mobilising financial resources from local and external sources, allocating these resources to all Ministries, Departments and Agencies (MDAs), monitoring Government expenditure and advising Government institutions on all financial matters. The role is further complemented by the Accountant General through the formulation of accounting policies including the processing of financial transactions to reporting level.

The Minister of Finance is responsible to the cabinet and to the National Assembly for:

a) The preparation and presentation of economic and fiscal policy
b) Ensuring adequate procedures, internal controls and guide-lines exists for the use of public money and public resources
c) The compliance by the Ministry of Finance with its responsibilities under the Act.

1.6.2 Secretary to the Treasury

The Secretary to Treasury is the principal financial adviser to the government and the administrative head of treasury.

The Secretary to Treasury reports and is responsible to the Minister of Finance for compliance of the Treasury obligations under the Public Finance Management Act.

Specific Responsibilities of the Secretary to the Treasury

a) Responsible for providing economic, fiscal, and financial advice to and assisting the Minister in presenting the draft estimates, supplementary estimates and periodic and annual financial statements of government.
b) Setting policies, practices and procedures for all financial management.
c) Providing the information required by the Public Finance Management Act in accordance with Generally Accepted Accounting Principles.
d) Monitoring the accounting systems for government.
e) Coordinating and monitoring system of financial management, internal controls and reporting in all government ministries.
f) Exercising and maintaining control and direction of all matters relating to the financial management of the government in accordance with government policy as communicated by the minister.
g) Collection of revenue owing to the state.

1.6.3 Accountant General

Responsibilities of the Accountant General

a) Formulation of financial management systems and procedures for collating and reposting of financial performances;
b) Setting financial policies and standards;
c) Preparing accounting guidelines, procedures and processes;
d) Reviewing and implementing financial reporting systems;
e) Management of cash, cash flow forecasting and banking processes;
f) Advising Controlling Officers on public financial management matters;
g) Management of accounting personnel in the Accounting Common Service;
h) Consolidating annual financial statements of Government;
i) Management of pay services;
j) Maintenance of records of Government tangible and intangible asset
k) Reconciliation of Malawi Government Control Account Number 1 and all related operating bank accounts maintained at the Reserve Bank of Malawi; and
l) Generation of the Income and Expenditure Reports from Integrated Financial Management Information System (IFMIS).

1.6.4 Economic Planning and Development

The minister is responsible for:

a) The formulation of economic and fiscal policy of the Government of Malawi and for the financial management of ongoing operational activities both annually and for such longer periods as he considers appropriate specifying agreed policies, outcomes and outputs to be achieved, and taking into account the views of prior policy consultations.
b) The preparation of the annual draft estimates and such other estimates as may be necessary and overseeing their implementation on behalf of the government.
c) The supervision of the finances, assets, and liabilities of the State so as to ensure that a full accounting is made to the National Assembly of all transactions involving public moneys or the disposition of public resources.
d) The oversight of the finances of statutory bodies.
e) The publication in the gazette and by whatever other means considered appropriate of information as to economic plan and projects approved by the National Assembly or government and the progress made in their implementation.

1.6.5 Other Ministries

General Responsibilities of other ministers

a) Each Minister is responsible to Cabinet and National Assembly for ensuring that Controlling Officers coming within the area of the assigned responsibilities of the Minister comply with their responsibilities under the Public Finance Management Act (2003) for the effective and efficient financial management of all public money and public resources under their control.

b) Each Minister shall ensure that all estimates of revenue and expenditure provided from entities that comprise the assigned responsibility of the Minister are realistic, practicable and fully consistent with the budget policy statement of the government.

c) Each Minister shall ensure that the financial management of the public money and public resources that are allocated to the assigned responsibilities of the minister in an appropriation account achieves the objectives and outputs approved for each vote.

Each Minister shall ensure compliance with all reporting responsibilities coming within the assigned area of responsibility of the Minister.

1.6.6 Responsibilities of Controlling Officers

Treasury Instructions (Part II) states that the responsibility and accountability for public funds rests with Controlling Officers. As a result, Controlling Officers are required at the beginning of the fiscal year, and whenever requested, to confirm to the Chief Secretary that they are familiar with financial management responsibilities; they understand them and are able to provide assurance that they believe they are able to comply with them. At the end of each financial year they are required to confirm they have met their obligations under the PFM Act for that period.

In addition, the Controlling Officers shall:

i. Advise the responsible minister on financial management;
ii. Maintain accounting records with supporting documents;
iii. Safeguard the collection and custody of public money;
iv. Ensure that all expenditure is properly authorized and applied to the specific purposes for which it is appropriated;
v. Ensure that there is no over-expenditure or over-commitment of funds to eliminate the occurrence of arrears;
vi. Ensure that the collection of public moneys is according to the approved plans and Estimates;
vii. Ensure that all expenditure is incurred with due regard to economy, efficiency and effectiveness;
viii. Develop robust systems to safeguard public resources;
ix. Ensure that any tax, duty, fee or charge imposed by legislation for which the Ministry is responsible is collected promptly;
x. After the first six months of each financial year and at such other times as required by the Secretary to the Treasury reports are submitted, on the management of funds provided for the achievement of the Ministry's outputs and the collection of revenues;
xi. Ensure that internal controls are continuously reviewed and developed to adapt to changing environment;
xii. Ensure that effective internal audit functions are institutionalized;
xiii. Controlling Officers shall ensure that all information requested by the Secretary to the Treasury in order to meet their obligations under the PFM Act shall be provided, and in an accurate and timely manner;
xiv. Submit financial statements to the Accountant General for consolidation two months after the close of the financial year to which the statements relate;
xv. The responsibility of a Controlling Officer under the PFM Act is not derogated or reduced by reason of any delegation of their functions to another person; and
xvi. Maintain records of acquisition and disposal of tangible assets and public infrastructure.

1.6.7 Responsibilities of the Auditor General

While the National Audit Office is part of Government, the duties of the Auditor General are executed independent of general Government administrative functions (Treasury Instructions).
The Treasury Instructions further states that the Auditor General is required to on behalf of the National Assembly to examine, enquire into, and audit the accounts of all controlling Officers and Receivers of Revenue and all persons entrusted with the collection, receipt, custody or disposal of public moneys or public stores. In the exercise of his functions the Auditor General is not subject to the direction or control of any other person or authority.

It should be noted that the responsibility of the Auditor General for checking and reporting any shortcomings in connection with the Public Accounts does not absolve any officer from his responsibility for complying, or securing compliance with instructions within the scope of his own authority. It is not the function of the

Auditor General to lay down schemes of accounting or to direct how public moneys are to be accounted for, but, he is always ready to give advice on accounting matters when required. It is worthwhile noting that the prime responsibility of the Auditor General is to ascertain whether the requirements of the National Assembly and the Treasury have been complied with and if he is not satisfied that this is the case he brings the matter to the attention of the Controlling Officer and the Treasury and ultimately, if of sufficient importance, to the notice of the National Assembly.

1.6.8 Malawi Revenue Authority

Malawi Revenue Authority is government agency under Ministry of Finance entrusted with the responsibility of assessment, collection and accounting for tax revenues. MRA was established by Act of Parliament in 1998 and was launched in February, 2000. It was formed to improve on the functions previously carried out by the Department of Customs and Excise and Income Tax in the Ministry of Finance.

The MRA is overseen by a Board of Directors and headed by a Commissioner General to provide leadership, strategic direction, and control. In pursuance of these duties and to accomplish the mandate of MRA, functional departments and divisions are in place.

MRA has two main revenue divisions of Customs and Excise, and Domestic Tax Divisions. The Customs and Excise division administers and enforces the customs and excise act. The division collects import and excise duty and import VAT. The Domestic Tax administers the Taxation and VAT Acts. The division collects direct income taxes from individuals and corporations.

1.7 Context of Public Financial Management and Accounting

There are two main sectors of the economy in Malawi. These are the Public and the Private Sectors. However, the two are different. This section therefore focuses on the differences between the two sectors. The section also looks at the responsibilities of key public officers in financial management in the public sector.

1.7.1 Similarities between the Private and the Public Sectors

The public sector refers to the apparatus of the state, supplying goods and obligatory services to the public. A substantial part of its operating funding comes from taxing the public. The private sector is made up of corporations and small businesses that also supply the public with goods and services, although the operating funds of private companies come from the voluntary purchases of customers.

a. Serve the Public

Private and public sectors ideally serve public interests. The private sector is indebted to investors and shareholders, which depend on sales to clients and customers to run profitable businesses. The public sector is indebted entirely to the public in a more transparent way by providing essential services and infrastructure.

b. Competition

In the private sector, companies that provide the same services and goods are naturally in competition, and the goal of the free market is for various corporations to gain dominance over one another. In the public sector, certain types of entities compete in a similar way, such as schools and public health clinic.

1.7.2 Differences between the Private and the Public Sectors

a. The size, monetary value, and complexity of many government programs normally exceed that in the private sector

b. The government has fewer measures of progress or success than the private sector. Spending on a program is not equivalent to progress. The private sector has profit as a clear-cut measure.

c. The compensation rules of the government make it more difficult to encourage outstanding performance and discourage poor performance.

d. There is very little personal gain in the government for taking risks on policy or programs and being successful in achieving the goals more effectively. The opposite is true for the private sector. However, there is potential for substantial criticism and other personal loss if the innovative attempt fails.

e. The key reality to the private sector is market-driven competition, whereas the same in the government is almost always a legislated monopoly.

f. Private sector managers worry about creating added value, i.e. a product or service that can be sold competitively to the public. This requires the ability and skill to change, evolve, adapt and improve constantly. Government is frequently quite different. Managers in the government often know what needs to be done and desire to do it but are facing restrictions of laws, regulations, policies, often made years earlier for other circumstances, that prevent prompt action.

g. Authority and responsibility in the government tends to be asymmetric while authority and responsibility in the private sector are more clearly balanced. Responsibility in the government can be enormous while authority is frequently quite limited.

h. Authority in government may be ambiguous and unclear in some circumstances. In other cases it is very clear and tightly restricted through laws, regulations, policies and directives that leave little, if any room for individual initiative.

i. The senior/political leadership in Departments and Agencies turns over more frequently and to a larger extent than occurs in the private sector.

j. The average years of experience either on the substantive matters for which they are responsible or in management generally for political leadership is much less than their counterparts in the private sector. The main goal of most political appointees is to promote the policies of the Administration and/or change the policies of the previous Administration. Few political appointees focus on organizational management issues because they have no experience; will not be in government; and desire to focus on policy issues, not management issues. Political appointees receive little encouragement to focus on management issues.

k. The interests of the supervision of an Executive Branch are much greater than those of an organization in the private sector.

l. "Whistle blowers" receive more encouragement and protection in the government than the private sector and are thus more active. They provide insights and information to the media, and/or the affected stakeholders.

m. The government is much slower in action than the private sector; there is little sense of urgency or time due to bureaucracy processes; since political appointees know that their job tenure is very finite, they frequently spend a disproportionate amount of time considering or working towards their next private sector activity. This distraction, with its implications for the performance of the individual and those organizationally above or below the individual, does not occur in the private sector.

n. In government, issues are rarely "permanently" decided with little chance of modification or reversal. Changes in control of the government can frequently lead to reconsideration of previous firm decisions, whether or not the external fact situation has significantly changed.

o. The tenure of political employees is limited compared to career employees and the relevant experience of the political employees is likely to be less than that of private sector employees.

End of Chapter Summary

The chapter has looked at the respective duties and responsibilities of key Officials in public finance management including the Minister of Finance, Other Ministers, Secretary to the Treasury, the Accountant General and the Auditor General. The Context of public finance management has also been discussed by looking at the similarities and differences between public and private sector entities.

Sample Questions

1. What is Public Sector Accounting and Finance
2. Explain the roles and responsibilities of the Minister of Finance and other Ministers in Public Finance Management in Malawi.

Chapter 2

LEGAL FRAMEWORK FOR PUBLIC FINANCIAL MANAGEMENT

2.0 Introduction

This chapter will explain the legal frame work under-pining Public Sector Accounting. It aims to make sure that public organizations manage their finances in ways that are efficient, effective and economical.
The legal framework that regulates public sector financial operations in Malawi includes:

a) The Constitution of the Republic of Malawi, 1994;
b) The Public Finance Management Act (2003);
c) The Public Audit Act (2003);
d) The Reserve Bank of Malawi Act (1989);
e) The Anti-Corruption Act, [1996]; and
f) The Money Laundering Act (2006).

Any other regulation that parliament may enact from time to time.

2.1 Learning Objectives

By the end of this chapter, students should be able to:

a) Explain according to the Constitution of Malawi the circumstances funds can be withdrawn from the Consolidated fund.
b) Describe according to the Constitution of Malawi expenditures that can be charged against the consolidated fund.
c) Explain the objectives, the financial reporting requirements, offences and fines that can be charged for non compliance or breach of the Public Finance Management Act.
d) Explain the purposes of having a Public Audit Act, responsibilities, duties, and powers of the Auditor General.
e) Explain according to Public Audit Act, the financial reporting requirements of the Auditor General to National Assembly, Controlling Officers and to the Public Accounts Committee.
f) Explain the offences and penalties for breaching the Public Audit Act
g) Explain the composition and functions of the Internal Procurement Committee or Specialised Procurement Unit, and the role of Accountants in the procurement process.
h) Discuss the source of authority for government to collect revenues from the public, withdrawal of funds from the Consolidated fund, eligible expenditures that can be charged against the Consolidated fund, authorisation of expenditure in advance of appropriation, contingency fund, development fund and the protected expenditure fund.
i) Discuss the principle objectives, powers, functions, and monetary functions of the Reserve Bank of Malawi.

j) Explain the functions, powers, and special powers of investigations of the Anti Corruption Bureau and offences under this Act.

k) Discuss functions and duties of the Financial Intelligence Unit.

2.2 The Constitution of the Republic of Malawi, 1994

2.2.1 Section 171- prohibits collection of revenues from the public without authority or without being sanctioned by relevant law

2.2.2 Section 172-The Consolidated Fund-General Revenues

States that all government revenues subject to this Constitution and any Act of Parliament be paid or deposited into the Consolidated Fund.

2.2.3 Section 173-Withdrawal of Funds from Consolidated Fund

Provides circumstances when monies can be withdrawn from consolidated fund as follows:

a) To meet expenditures that is charged by the Constitution or Act of Parliament.

b) Where the issue of those monies has been authorised by an Appropriation Act, a Supplementary Appropriation Act or by an Act made in pursuance of subsection(5) of this section or sections 178,179,180,181,or 182 or by a resolution of the National Assembly made in accordance with section 177.

2.2.4 Section 174-Expenditure charged on the Consolidated Fund

Provides for expenditures that shall be charged on the Consolidated Fund as follows:

Subsection(1) there shall be charged on the Consolidated Fund in addition to any grant, remuneration or other moneys so charged by this Constitution or any Act consistent with this constitution:

a) all debt charges for which the government is liable;

b) all pensions, compensation for loss of office and gratuities for which the government is liable;

c) any moneys required to satisfy any judgement, decision or award made or given against the Government by any court or tribunal other than those provided for in the National Compensation Fund; and

d) All moneys or debt charges charged before the appointed day upon the revenues or public funds of Malawi.

Subsection (2) for the purpose of section 174, “debt charges” includes interest, sinking fund charges, the repayment or amortisation of debt, and all expenditures relating to raising of loan on the security of Consolidated Fund and the service and redemption of the debt thereby created.

2.2.5 Section 175-Annual Estimates

Subsection (1) provides that it is the Minister responsible for Finance who shall lay before the National Assembly a statement of the estimated receipts and expenditure of the Government in respect of the financial year, other than the sums in subsection(3)

Subsection (2) provides that the statement of estimates shall be laid before the National Assembly in respect of every financial year and shall be so laid before the commencement of that financial year.

Subsection(3) provides that where the National Assembly does not propose to debate the estimates until after the commencement of the financial year to which they relate, the estimates may be laid before the commencement of such debate.

Subsection (4) provides what the estimates of expenditure shall show separately as follows:

a) the total sums required to meet the expenditure charged on the Consolidated Fund; and

b) the sums respectively required to meet the heads of other expenditure proposed to be met from the Consolidated Fund.

Subsection (5) provides sums not to be included in the estimates of receipts and expenditure to be laid before National Assembly as follows:

a) Sums representing the proceeds of any loan rose by the Government for a specific purpose and appropriated for that purpose by the Act authorising the raising of that loan;

b) Sums representing any money or interest on money received by the Government subject to a trust and to be held or applied in accordance with the terms of that trust;

c) Sums representing moneys authorised to be advanced from the Consolidated Fund under an Act of Parliament and repayments thereof; and

d) Sums representing moneys received for or to be applied from any special fund established and regulated by this Constitution or by an Act of Parliament which provides that subsection (1) and (4) shall not apply to that fund.

2.2.6 Section 176-Appropriation Bill

After approval of estimates of expenditure by National Assembly, Appropriation Bill is introduced in the Assembly providing for the issue from the Consolidated Fund of the sums necessary to meet that expenditure and the appropriation of those sums, under separate votes for the several heads of expenditures approved, to the purposes specified in the Bill.

2.2.7 Section 177-Supplementary appropriation

Subsection (1) states that if in respect of any financial year it is found

a) that the amount appropriated by the Appropriation Act for any purpose is insufficient, or that a need has arisen for expenditure for a purpose for which no amount has been appropriated by the Appropriation Act; or

b) that any moneys have been expended for any purpose in excess of the amount (if any) appropriated for that purpose by the Appropriation Act, a supplementary estimate showing the sums required or spent shall be laid before the National Assembly and the heads of any expenditure shall be included in a Supplementary Appropriation Bill or in a motion or motions approving such expenditure.

Subsection (2) where a supplementary expenditure has been approved, a Supplementary Appropriation Bill shall be introduced as soon as possible after commencement of the financial year next following, providing for the appropriation of the sums so approved

2.2.8 Section 178--Authorisation of expenditure in advance of appropriation

The National Assembly may make a provision under which if it appears that the Appropriation Act will not come into operation by the beginning of the financial year, the Minister of Finance may authorise the withdrawal from the Consolidated Fund of moneys to meet government expenditures until the expiry of four months from the beginning of the financial year or the coming into operation of the Appropriation Act, whichever is earlier.

2.2.9 Section 179 -Contingency Fund

Gives authority to the National Assembly to establish a Contingency Fund and authorising the Minister of Finance to make advances from the fund to meet urgent and unforeseen expenditures for which no provision exists.

2.2.10 Section 180-Raising of loans by Government

- **Subsection (1)** provides for raising a loan by Government under the authority of an Act of Parliament.
- **Subsection (2)** Parliament after authorising raising a loan by Act of Parliament, may appropriate the proceeds of the loan for specific purposes and may authorise the payment of such proceeds out of Consolidated Fund for such purposes.

2.2.11 Section 182-The Development Fund

Subsection (1), and Subsection (2) deal with the Development Fund and estimates of expenditure to be met from the Development Fund, and an Appropriation (Development Fund) Bill shall be introduced in National Assembly providing for the issue from Development Fund and appropriation of sum necessary to meet that expenditure.

2.2.12 Section 183-The Protected Expenditure Fund

Subsection (1) and (2) provide for creation of Protected Expenditure Fund within the accounts of the Consolidated Fund and authorises the Minister of Finance to make provision in the annual Appropriation Bill for the purpose of voting sums for the purpose of the fund.
Subsection (3) Provides a list of expenditures to which can be financed from the Protected Expenditure Fund:

a) the salaries, allowances and other employment benefits of the President and the First Vice President;
b) the salaries, allowances and other employment benefits of the Chief Justice, Justices of Appeal and judges of the High Court;
c) the salaries, allowances and other employment benefits of the Ombudsman; and
d) the expenditure incurred to convene Parliament and to ensure the effective functioning of Parliament.

2.2.13 Section 184-Appointment and responsibilities of the Auditor General
2.3 Public Finance Management Act 2003
2.3.1 Objectives:

a) Foster and enhance effective and responsible economic and financial management by Government;
b) Provide accountability arrangements and ensuring that Government Departments and Ministries comply with the arrangements;
c) Produce statement of budget policy;
d) Confirmation of adherence to fiscal discipline; and

e) Production of comprehensive financial statements.

2.3.2 Responsibilities

Overall responsibility is with the Minister of Finance and is answerable to the Cabinet and National Assembly.

2.3.3 Internal Controls

Definition:

a) Revenue is properly assessed and collected;
b) Expenditure is validly and correctly authorized;
c) Revenue, expenditure, assets and liabilities are properly recorded and accounted for;
d) Financial and operating information is accurate and reliable;
e) Assets are safeguarded against loss and destruction;
f) Public resources are employed and managed in an effective, economic and efficient manner; and
g) Outcomes or provisions produced are in accordance with those specified in appropriation Act.

2.3.4 Virements-Transfers between outputs

a) Sec 25:Secretary to the Treasury may, with the approval of the Minister direct virements of funds;
b) The amount transferred does not increase the appropriation by more than 20%;
c) The transfer does not conflict with the performance of outputs or policy specified in the estimates; and
d) The total appropriation for the year is unaltered.

2.3.4 Financial Reporting

a) Draft annual statement to be submitted to the Auditor General by 31st October after the end of the fiscal year (i.e. 4 months after the yearend);
b) The Auditor General to issue a report six months after the year end (i.e. 31st December); and
c) Ministries to submit monthly expenditure reports to Treasury within 14 days after the end of the month.

2.3.5 Offences and Discipline (sec87 & sec88)

a) Officer who over spends or spends where there is no budget line will be suspended for 14 days without pay; and
b) After the expiry of 14 days, the officer's service may be terminated or suspension lifted depending on explanations provided.

2.3.6 Committing an offence Sec 88(8 offences)

a) Refuses to appear before an inquiry authorized by Secretary to the Treasury;
b) Refuses to produce records in his possession;
c) Refuses or neglects to deposit public funds;
d) Makes a false declaration
e) Intentionally or recklessly over commits or over spends funds under his control
f) Improper payment of public funds;
g) Improper use of public funds; and
h) Wilfully fails to meet any obligation imposed by the Act.

2.3.7 Penalty

Fine of K100, 000.00 and imprisonment for five years

2.4 PUBLIC AUDIT ACT NO.6 of 2003
Definition: an Act to reform the law relating to Public Audit

2.4.1 Purpose*:*

a) Inform the National Assembly on public expenditures, revenues, assets, liabilities and the management of public money;
b) Promote the accountability of Ministers of State in the management of public funds; and
c) Promote the accountability of agencies and statutory bodies in the management of public funds.

2.4.2 Responsibilities

The Auditor General has the overall responsibilities for the administration of the Act and has powers conferred upon him by the Republican Constitution and by the Act.

2.4.3 Duties of the Auditor General Sec 6: 8:
Conduct the Audits of:

a) Government Ministries and Departments;
b) Statutory bodies and agencies;
c) Projects wholly or partly funded by Government; and
d) Examine and review operating procedures and systems of internal control (sec 6 subsec4).

2.4.4 Powers of the Auditor General (sec7&8

a) Shall have full access to all books of accounts and documents;
b) May request anyone with Government documents to supply him with those documents;
c) May enter any building where a Government undertaking is taking place; and
d) May summon (subpoena) anyone to appear before him.

No civil liability
The Auditor General and his staff are protected from any civil liabilities in conducting their work as long as it is in good faith.
Reporting

a) By 31st December after the end of the fiscal year prepares an annual report which is submitted to the President and National Assembly; and
b) Prepares individual reports for controlling officers.

2.4.5 Public Accounts Committee

a) Provide information to the National Assembly on the management of public funds;
b) Promote accountability of line Ministers and statutory bodies; and
c) Hold accountable Ministers, agencies and other entities controlled by Government.

2.4.6 Offences

An offence is committed when:

a) A person refuses to attend a meeting called by the AG
b) Refuses to answer questions;
c) Makes a false declaration
d) Resists, obstructs or attempts to deceive the AG;
e) Aids, abets, counsels or procures a commission of an offence under the ACT; and
f) Fine of K50, 000.00 and imprisonment for two years.

2.4 Public Procurement Act 2003

Definition:
a) An Act to provide the principles and procedures to be applied in, and to regulate, the public procurement of goods, works and services
b) To provide the establishment of the Office of The Director of Public Procurement as the main authority responsible for the monitoring and oversight of public procurement activities.

2.5.1 Internal Procurement Committees

Each Ministry, agency and statutory body will have an IPC or Specialized procurement unit (sec8) whose functions will be:

a) Ascertain availability of funds;
b) Opening of bids; and
c) The examination, evaluation and comparison of bids and selection of a successful bidder.

Composition of the IPC

a) Controlling officer or his representative who shall be chairman;
b) Procurement professional;
c) Accountant or budget professional; and
d) External members nominated by the Director of public procurement.

Role of Accountants in the procurement process

a) Disbursement or payment officers and are the last line of defence to detect fraud or misprocurement; and
b) Should ensure that any payment for a procurement activity is in line with the Act and that it has followed the regulations as laid down in the procurement regulations and desk instructions.

2.6 Reserve Bank of Malawi act 1989

Definition

It is an Act for the establishment of the Reserve Bank of Malawi; regulate the issue of bank notes and coins; to confer and impose on the Reserve Bank of Malawi certain powers and duties; to provide for matters connected with banking, currency and coinage; to provide for the supervision of banks and financial institutions; and for matters connected therewith and incidental thereto;

2.6.1 The principal objectives of the Reserve Bank of Malawi

The principal objectives of the Reserve Bank of Malawi are as follows:

(a) Issue legal tender currency in Malawi;
(b) Act as banker and adviser to the Government;
(c) Maintain external reserves so as to safeguard the inter- national value of the Malawi currency;
(d) Implement measures designed to influence the money supply and the availability of credit, interest rates and exchange rates with the view to promoting economic growth, employment, stability in prices and a sustainable balance of payments position;
(e) Promote a sound financial structure in Malawi, including payment systems, clearing systems and adequate financial services;
(f) Promote a money and capital market in Malawi;
(g) Act as lender of last resort to the banking system;
(h) Supervise banks and other financial institutions;

(i) Collect economic data of the financial and other sectors for research and policy purposes; and
(j) Promote development in Malawi.

2.6.2 The powers and functions of the Reserve Bank of Malawi
Division I-General Powers and Functions General
The following are the General Powers and Functions of the Reserve Bank of Malawi

Sect 28. The Bank may-

(a) Issue demand drafts and effects other kinds of remittances payable at its own offices or at the offices of agencies or correspondents;
(b) Purchase and sell gold;
(c) Open accounts for, and accept deposits from the Government, funds, corporations and institutions controlled by the Government, banks and other financial institutions in Malawi and act as banker to any such funds, corporations, institutions, banks or other financial institutions;
(d) maintain accounts with central banks and other banks abroad and act as correspondent, bank or agent for any central or other banks or other monetary authority and for any inter- national bank or international monetary authority established under governmental auspices;
(e) Purchase, sell, discount and rediscount domestic bills of exchange and promissory notes arising out of bona fide commercial transactions;
(i) Purchase, sell, discount and rediscount domestic bills of exchange and promissory notes drawn or issued for the purpose of financing the transportation, marketing or processing of agricultural produce or minerals;
(g) Purchase, sell, discount and rediscount Treasury Bills of the Government forming part of a public issue and maturing within ninety-one days;
(h) Purchase, sell and manage securities of the Government having a definite maturity period;
(i) Invest in securities for any amount, and to mature at any time, on behalf of staff funds and superannuation funds and other internal funds of the Bank;
(j) With the approval of the Minister, subscribe, hold and sell shares of any corporation set up with the approval of or under the authority of the Government for the purpose of facilitating economic development:
Provided that the total value of and such holdings of such shares shall not at any time exceed ten per cent of the aggregate amount of the capital and General Reserve Fund of the Bank;
(k) Act as intermediary or agent between foreign lending institutions, organizations or governments and borrowing entities in Malawi;
(I) Subject to the prior consent of the Minister, lend to any statutory body in such manner and on such terms and conditions as it may deem fit;
(m) Purchase and sell external currencies and purchase, sell, discount foreign bills of exchange and foreign treasury bills maturing within one hundred and eighty days;
(n) Purchase and sell government and government guaranteed securities denominated in convertible currency of any country and securities denominated in convertible currencies issued by international financial institutions of which Malawi is a member;

(o) On behalf of Malawi, make payments to, and receive moneys from, the International Monetary Fund and issue, purchase and sell any securities (whether expressed in Malawi currency or external currency and whether or not maturing at a fixed date) occasioned by, or arising from, the membership of Malawi in the International Monetary Fund and the participation of Malawi in the Special Drawing Rights Account thereof;
(p) Accept from customers for custody securities and other articles of value;
(q) Undertake on behalf of customers and correspondents the purchase, sale, collection and payment of securities; (r) Make arrangements or enter into agreements, subject to the consent of the Minister, with any bank or financial institution in a country outside Malawi, to borrow, on such terms and conditions as it may deem fit, any convertible currency; and
(s) Issue promissory notes and other securities as it deems fit for open market operations.

2.6.3 Monetary Functions of the Reserve Bank of Malawi

The following are the monetary functions of the Reserve Bank of Malawi

In pursuance of its monetary policy the Bank shall influence the flow of money and credit, and may issue regulations with respect to the level of interest rates and foreign exchange rates **(Sec 30).** For the purpose of influencing the flow of money and credit the Bank may, in accordance with such operational procedure, if any, as the Bank may lay down from time to time, engage in the f**ollowing c**redit operations:-

i. rediscount of domestic trade bills and bank drafts resulting from bona fide commercial transactions;
ii. rediscount of domestic trade bills and bank drafts drawn for the purpose of financing the transportation, marketing or processing of agricultural produce and minerals; and
iii. rediscount of treasury bills, forming part of a public Government issue and maturing in ninety-one days.
   - The Bank shall determine its rediscount and other rates, which shall be made public by displaying such rates at its premises **(Sec32).**
   - The Bank may prescribe credit ceilings for banks and financial institutions aimed at limiting the availability of credit in the economy **(Sec 33)**.
   - To regulate the liquidity in the economy, the Bank may undertake open market operations as part of its monetary policy through the use of the following instruments **(Sec 34)-**
     - ➢ treasury bills issued by the Government under section 28 (g) for maturities of ninety-one days;
     - ➢ treasury bills maturing in ninety-one days issued by the Government under section 40 (5) on request of the Bank against advances granted, in respect of temporary shortfalls of the budget revenue;
     - ➢ treasury bills or other securities mobilized on the request of the Bank against its receivables from the devaluation of the Kwacha in the form of promissory notes issued by the Government under section 40 (5);

- treasury bills or other securities converted on request of the Bank under section 40 (5) from the Government's out- standing long-term loans; and
- promissory notes or such other securities issued by the Bank for its open market operations under section 28 (s).

The Bank may use the instruments specified in section 34 for monetary purposes and to ensure orderly market conditions. The Bank may conduct its open market operations throughout- right sale and purchase or repurchase agreements or other methods **(Sec 35).**

36 (1) The Bank may require banks to hold a specific portion, expressed as a percentage, of the liabilities arising from demand, time and savings deposits, as well as from short- and medium-term borrowings, except borrowings from other banks, subject to reserve requirements, as deposits with the Bank.

(2) The percentage for the purposes of subsection (1) shall be set from time to time by the Bank.

(3) The Bank may also require financial institutions to maintain deposits as reserves with it.

37(1) The Bank may require banks to maintain a prudential cash reserve as a deposit with it and such deposit may not exceed five per cent of demand liabilities.

(2) The Bank may also require financial institutions to maintain minimum cash reserves.

38. Deposits under sections 36 and 37 of this Act shall not carry any interest except as the Bank shall otherwise decide and such decisions shall be an integral part of the Bank's monetary policy.

39. The Bank shall act as a banker and adviser to the Government
Provided that the Government may maintain accounts in Malawi with other Banks, and use their services in such cases and on such conditions as may be agreed upon between the Minister and the Bank.

40(1) The Bank may make short-term advances to the Government in respect of temporary shortfalls in budget revenues on such terms and conditions as the Bank may determine.

(2) The total amount of advances outstanding at any time made by the Bank under this section shall not exceed twenty per cent of the annual budgeted revenues of the Government as defined in subsection (3).

(3) For the purposes of this section, the annual budgeted revenues of the Government shall be those revenues derived from sources within Malawi as estimated for the Government's financial year in which such advances are made.

(4) All advances made under subsection (I) shall be repaid as soon as possible and, in any event, shall be repayable within four months of the end of the Government's financial year in which they are made, and if after the end of the financial year such advances remain outstanding, the power of the Bank to grant further such advances shall not be exercisable unless and until the outstanding advances have been repaid.

(5) If at any time the Bank has any Government loans and advances outstanding, irrespective of maturity, the Bank may require the Government to issue to it treasury bills or promissory notes and other instruments as the Bank may

deem fit for open market policy purposes, and the terms and conditions shall be agreed upon between the Bank and the Minister.

41 (1) The Bank shall be entrusted with the issue and management of Government securities publicly issued in Malawi upon such terms and conditions as may be agreed upon between the Minister and the Bank.

(2) The Bank may purchase and sell securities of the Government maturing in not more than twenty-five years which have been publicly offered for sale or form part of an issue which is being made to the public at the time of acquisition:

Provided that at any particular date the total amount of such securities of a maturity exceeding two years in the ownership of the Bank (other than securities held in terms of section 28 (i) or held by the Bank as collateral under section 46 (i) (b) or held as a result of its open market operations under section 34 (b)), shall not together at any time exceed twenty per cent or such lower percentage as the Minister, after consulting the Governor, may from time to time determine by order published in the Gazette, of the total development budget of the Government for the current fiscal year.

(3) The Bank may upon request of the Government; guarantee the repayment of the principal and the payment of interest and charges of any external borrowing by the Government or by any statutory body and in the case of a statutory body the Bank shall be entitled to request the Government to counter guarantee such borrowing.

42. The Bank may generally act as agent of the Government

(a) where it can do so appropriately and consistently with this Act and with its duties and functions as a central bank; and

(b) on such terms and conditions as may be agreed upon between the Minister and the Bank.

43. The Minister shall, when contracting any external debt on behalf of the Government, consult the Bank on the terms and conditions of such debt relating to interest, fees and maturity.

2.6.4 Division IV-Relations with Banks and other Financial Institutions
The relations of the Reserve Bank of Malawi with other Financial Institutions are as follows:

1) **M**ay act as banker to other banks in Malawi (Sec44).
2) **M**ay promote money transfer and clearing systems and provide facilities therefore (Sec45).
3) May grant advances to banks or financial Lender to institutions for periods not exceeding three months against banks promissory notes secured by the pledge with the Bank of (Sec 46)-
   (a) publicly issued treasury bills maturing within ninety-one days;
   (b) securities issued by the Government (Local Registered Stock) maturing within twenty-five years;
   (c) other securities which may be declared eligible by the Bank from time to time, with the approval of the Minister;
   (d) bills of exchange and promissory notes which are eligible for purchase, discount or rediscount by the Bank; and

(e) warehouse warrants or other documents of title to goods duly insured and with a letter of hypothecation from the owner:

Provided that no advance so secured shall at any time exceed:

(i) seventy-five per cent, in the case of those mentioned in subsections (a), (b), (c) and (d); or

(ii) sixty per cent in the case of those mentioned in sub- section (e), of the market value of the security pledged. (2) Where in the opinion of the Bank there is no established market value for the securities mentioned in subsection (1), the value for the purpose of the proviso to that subsection shall be determined by the Bank.

4) Notwithstanding the foregoing provisions of this section, the Governor may, with the approval of the Minister, grant advances to banks and financial institutions on the terms and conditions to be determined by the Bank.

Promote close co-operation with the banks and financial institutions in Malawi aimed at (Sec 47):-

(a) maintaining and furthering satisfactory banking services for the public;

(b) ensuring high standards of conduct and management throughout the financial system; and

(c) furthering such policies which are in the national interest and which are not inconsistent with this Act.

2.7 The Malawi Corruption Practices Act 1996

Definition

An Act to provide for the establishment of an Anti-Corruption Bureau; to make comprehensive provision for the prevention of corruption; and to provide for matters connected with or incidental to the foregoing.

This Act may be cited as the Corrupt Practices Act.

The Act is applied in the following two circumstances as follows:

(1) In the Criminal Procedure and Evidence Code or in any other written law (Cap.8:01).

(2) All offences under this Act shall be inquired into, tried and otherwise dealt with in accordance with the provisions of the Criminal Procedure and Evidence code.

2.7.1 Functions and Powers of the Bureau

Functions of the Bureau

The functions of the Bureau shall be to—

(a) Take necessary measures for the prevention of corruption in public bodies and private bodies, including, in particular, measures for:

(i) Examining the practices and procedures of public bodies and private bodies in order to facilitate the discovery of corrupt practices and secure the revision of methods of work or procedures which in the opinion of the Bureau may be prone or conducive to corrupt practices;
(ii) Advising public bodies and private bodies on ways and means of preventing corrupt practices, and on changes in methods of work or procedures of such public bodies and private bodies compatible with the effective performance of their duties, which the Bureau considers necessary to reduce the likelihood of the occurrence of corrupt practices;
(iii) Disseminating information on the evil and dangerous effects of corrupt practices on society; and
(iv) Enlisting and fostering public support against corrupt practices.

(b) Receive any complaints, report or other information of any alleged or suspected corrupt practice or offence under this Act;
(c) Investigate any complaint, report or other information received under paragraph (b);
(d) Investigate any alleged or suspected offence under this Act;
(e) Investigate any offence under any written law disclosed in the course of investigating any alleged or suspected corrupt practice or offence under this Act;
(f) Subject to the directions of the Director of Public Prosecutions, prosecute any offence under this Act;
(g) Investigate the conduct of any public officer which, in the opinion of the Bureau, may be connected with, or conducive to, corrupt practices and to report thereon to the appropriate authority; and
(h) inquire into any matter in relation to the exercise of its other functions under this section.

The Bureau may decline to conduct an investigation into any complaint alleging an offence under this Act or to proceed further with any investigation if the Bureau is satisfied that:

(a) The complaint is trivial, frivolous, vexatious or not made in good faith; or
(b) The investigation would be unnecessary, improper or futile.

In any case in which the Bureau declines to conduct an investigation, or to proceed further with any investigation, the Bureau shall inform the complainant in writing of its decision.

Where the Bureau has carried out any investigation of any alleged or suspected corrupt practice or offence under this Act, it may, if it considers it necessary so to do, report its findings and recommendations to the appropriate authority regarding any matter which reveals, or points to, the existence or prevalence of any conduct connected with; or conducive to, corrupt practices; and in any such report, the Bureau may require the appropriate authority to take or institute such corrective action or measure as the Bureau shall reasonably specify in the report or to explain to the Bureau why such action or measure may not be taken or instituted or what other action or measure may instead be taken or instituted, and the Bureau may make such modification to its recommendations or requirements as it may consider desirable.

2.7.2 Powers of the Bureau

For the performance of the functions of the Bureau under this Act, the Director may:

(a) Authorize in writing any officer of the Bureau to conduct an inquiry or investigation into alleged or suspected offences under this Act;
(b) Require any public officer or other person to answer questions concerning the duties of that public officer or of any other public officer or other person, and order the production for inspection of any standing orders, directives or office instructions relating to the duties of the public officer or such other public officer or other person; and
(c) Require any person in charge of any office or establishment of the Government, or the head, chairman, manager or chief executive officer of any public body or private body or produce or furnish within such time as may be specified by the Bureau, any document or a certified true copy of any document which is in his possession or under his control and which the Bureau considers necessary for the conduct of investigation into any alleged or suspected offence under this Act;
(d) Require any person, including any public officer, to provide any information, or to answer any question, in connection with an inquiry or investigation under this Act; and
(e) Do or perform such other acts or things as are reasonably necessary or required for the exercise of the functions of the Bureau and the performance of his duties.

In the performance of his duties under this Act, the Director, the Deputy Director or other officer of the Bureau authorized in writing by the Director or Deputy Director, if so authorized by warrant issued, by a magistrate upon showing cause to the magistrate why the warrant should be issued shall have:-

(a) Access to all books, records, returns, reports and other documents relating to the work of the Government or any public body or private body;

(b) Access at any time to the premises of any Government office, public body or private body, or to any vessel, boat, aircraft or other vehicle whatsoever, and may search such premises or such vessel, boat, aircraft or other vehicle if he has reason to suspect that any property corruptly acquired has been placed, deposited or concealed therein.

In the exercise of the power of access and search under subsection (2) (b), the Director, the Deputy Director or other officer of the Bureau authorized in writing by the Director or Deputy Director may use such reasonable force as is necessary in the circumstances, and may be accompanied or assisted by such other persons as he deems necessary to assist him to enter into or upon any premises, or upon any vessel, boat, aircraft or other vehicle, as the case may be.

Any person who accompanies or assists the Director, the Deputy Director or other officer of the Bureau to enter into or upon any premises, or upon any vessel, boat, aircraft or other vehicle, as the case may be, shall, during the period of such accompaniment or assistance, enjoy the same immunity as is conferred under section 22 upon the Director, the Deputy Director or other officer of the Bureau.

2.7.3 Special powers of investigation

(1) The Director may, authorize any officer of the Bureau to investigate any bank account, share account, purchase account, expense account or any other account, or any safe box in any bank.

(2) An order made under subsection (1) shall be sufficient authority for the disclosure or production by any person of all or any information, accounts, documents or articles as may be required by the officer of the Bureau so authorized.

(3) Any person who fails to disclose such information or to produce such accounts, documents or articles to the officer of the Bureau so authorized shall be guilty of an offence and liable to a fine of K50, 000.00 and to imprisonment for five years.

2.7.4 Further powers of the Director to obtain information

If, in the course of any investigation or proceedings relating to any offence under Part IV, the Director is satisfied that it would assist or expedite such investigation or proceedings, he may, by notice, require—

(a) Any suspected person to furnish a sworn statement in writing enumerating all moveable or immoveable property belonging to or possessed by him, and specifying the date on which every such property was acquired and the consideration paid therefore, and explaining whether the property was acquired by way of purchase, gift, bequest, inheritance or otherwise;

(b) Any suspected person to furnish a sworn statement in writing of any moneys or other property sent out of Malawi by him during such period as may be specified in such notice;

(c) Any other person with whom the Director believes that the suspected person had any financial transactions or other business dealing relating to an offence under Part IV to furnish a sworn statement in writing enumerating all moveable or immoveable property belonging to or possessed by such other person at the material time: Provided that the Director shall not require any such other person to furnish such sworn statement unless he has reasonable ground to believe that such information can assist in the investigation or proceedings;

(d) The Commissioner of Taxes, notwithstanding the provisions of section 6 of the Taxation Act, to furnish all information in his possession relating to the affairs of any suspected person and to produce or furnish any documents or a certified true copy of any document relating to such suspected person which is in the possession or under the control of the Commissioner of Taxes; Cap. 41:01

(e) The manager of any bank to furnish any information or the originals, or certified true copies, of the accounts or the statements of account at the bank of any suspected person.

(3) Every person on whom a notice is served by the Director under subsection (1) shall, notwithstanding any oath of secrecy, comply with the requirements of the notice within such time as may be specified therein.

2.7.5 Obstructing of officers of the Bureau

Any person who:-

(a) Assaults, resists, in any way threaten or otherwise obstruct the Director, the Deputy Director or other officer of the Bureau in the execution of his duties; and

(b) Unlawfully hinders or delays the Director, Deputy Director or other officer of the Bureau in effecting entry into or upon any premises, boat, aircraft or vehicle, shall be guilty of an offence and liable to a fine of K70, 000 and to imprisonment for seven years.

2.7.6 Provision of false reports of information to the Bureau

Any person who:-

(a) Gives or causes to be given to the Bureau testimony or information or a report which is false in any material particular in relation to any matter under investigation by the Bureau;

(b) Makes or causes to be made to the Bureau a false report of the commission of an offence under this Act;

(c) Misleads the Director, Deputy Director or other officer of the Bureau by giving or causing to be given to them or to the Bureau false information or by making or causing to be made to them or to the Bureau any false statements or accusations, shall be guilty of an offence and liable to a fine of K100, 000 .00 and to imprisonment for ten years.

2.7.8 Powers of arrest

The Director, the Deputy Director or any officer of the Bureau, of such category and such senior rank as the Director may determine, if authorized by warrant issued by a magistrate, may arrest any person if he reasonably suspects that the person has committed or is about to commit an offence under this Act.

2.7.9 Identity cards

Every officer of the Bureau including the Director and Deputy Director shall have an identity card which shall be prima facie evidence of the officer's appointment as such and which shall be issued:-

(a) In the case of the Director and Deputy Director, by the Minister; and
(b) In the case of any other officer, by the Director.

2.7.8 Immunity of officers of the Bureau

No action or other proceedings shall lie against the Director, the Deputy Director or other officer of the Bureau in respect of any act or thing done or omitted to be done in good faith in the exercise of
his duties under this Act.

2.7.9 Offences:

A) Corrupt practices by or with public officers

(1) Any public officer who by himself, or by or in conjunction with any other person, corruptly solicits, accepts or obtains, or agrees to accept or attempts to receive or obtain, from any person for himself or for any other person, any advantage as an inducement or reward for doing or forbearing to do, or for having done or forborne to do, anything in relation to any matter or transaction, actual or proposed, with which any public body is or may be concerned shall be guilty of an offence.

(2) Any person who by himself, or by or in conjunction with any other person, corruptly gives, promises or offers any advantage to any public officer, whether for the benefit of that public officer or of any other public officer, as an inducement or reward for doing or forbearing to do anything in relation to any matter or transaction, actual or proposed, with which any public body is or may be concerned shall be guilty of an offence.

B) Corrupt use of official powers and procuring corrupt use of official powers

(1) Any public officer who, being concerned with any matter or transaction falling within, or connected with, his jurisdiction, powers, duties or functions, corruptly solicits, accepts or obtains, or agrees to accept or attempts to receive or obtain for himself or for

any other person any advantage in relation to such matter or transaction shall be guilty of an offence.

(2) Any person who, being concerned with any matter or transaction falling within the scope of authority, or connected with the jurisdiction, powers, duties or functions of any public officer, by himself, or by or in conjunction with any other person, corruptly gives, promises or offers any advantage, whether directly or indirectly, to such public officer either for himself or for any other person shall be guilty of an offence.

C. Public officers performing functions corruptly

(1) Any public officer who, being concerned with any matter or transaction falling within or connected with the jurisdiction, powers, duties or functions of his office, exercises or performs his powers, duties or functions corruptly, or otherwise acts corruptly, in relation to such matter or transaction shall be guilty of an offence.

(2) Any person who uses his influence on, or induces or persuades, a public officer concerned with any matter or transaction falling within or connected with that public officer's jurisdiction, powers, duties or functions to exercise or perform his powers, duties or functions corruptly, or otherwise to act corruptly, in relation to such matter or transaction shall be guilty of an offence.

D. Misuse of public office

(1) Any public officer who uses, misuses or abuses his public office, or his position, status or authority as a public officer, for his personal advantage or for the advantage of another person or to obtain, directly or indirectly, for himself or for another person, any advantage, wealth, property, and profit or business interest shall be guilty of an offence.

(2) Any person who uses his influence on, or induces or persuades, a public officer to use, misuse or abuse his public office, or his position, status or authority as a public officer, for such person's advantage or for the advantage of another person or to obtain, directly or indirectly, for such person or for another person any advantage, wealth, property, profit or business interest shall be guilty of an offence.

(3) Where in any proceedings for an offence under this section the prosecution proves that the accused did or directed to be done, or was in any way party to the doing of, any arbitrary act which resulted in the loss or damage of any property of the Government or of a public body, or the diversion of such property to or for purposes for which it was not intended, the accused shall, unless he gives proof to the contrary, be presumed to have committed the offence charged.

(4) For purposes of this section "arbitrary", in relation to actions of a public officer concerning the duties of his office, includes the doing, or directing the doing, of anything contrary to:-

(a) procedures prescribed by or under any written law; or
(b) established practice or any agreed rules or arrangement which is known or ought to be known to him or is, in relation to the matter under consideration, brought to his attention in writing or other sufficient means.

E. Dealing in contracts

(1) This section shall apply to any information which:-

(a) A public officer holds by virtue of his office;
(b) Would not be expected, or it would not be reasonable for it, to be disclosed by a public officer except in the proper performance of the functions of his office; or
(c) The public officer holding the information knows or ought to know that it is unpublished tender information in relation to any contract or proposed contract of a public body.

(2) Any public officer who holds information to which this section applies, or any person who has, directly or indirectly, obtained any such information from a public officer whom that person knows or has reasonable cause to believe held the information by virtue of his office, and who:-

(a) Deals in any contract or proposed contract to which the information relates and in which the public body is involved;
b) Counsels or procures another person to deal in any such contract or proposed contract, knowing or having reasonable cause to believe that such other person would deal in such contract or proposed contract;
(c) Communicates to any other person the information held or, as the case may be, obtained by him if he knows or has reasonable cause to believe that such other person or any other person would make use of the information for the purpose of dealing in, or counselling or procuring any person to deal in, any contract or proposed contract to which the information relates and in which a public body is involved, shall be guilty of an offence.

2.7.10 Disclosure of interest by public officers

(1) Where a contract or proposed contract in which a public officer or any member of his immediate family, or other close associate of his, has a direct or indirect interest is, to his knowledge, being, or is to be, considered:-

(a) At a meeting at which the public officer is or will be present; or
(b) In any other circumstances relating to his duties as a public officer, such public officer shall, at the commencement of the meeting or at any time upon becoming so aware, declare to the meeting or to the appropriate authority or in the manner prescribed the nature of such interest and shall not take part in, or be in attendance during, the discussion or consideration of the contract or proposed contract or vote on any matter or do any other thing relating to the contract or proposed contract.

(2) Any public officer who:-

(a) fails to make a declaration of interest as required by subsection (1);
(b) in making a declaration of interest pursuant to subsection (1), makes a false declaration or a false statement; and
(c) otherwise contravenes subsection (1), shall be guilty of an offence.

(3) It shall be a defence to a charge for an offence against subsection 2 (b) that the accused did not know, or did not have reasonable ground to believe that the declaration or statement was false.
(4) In this section:

"Interest" means interest in a private capacity; and
"Member of immediate family" in relation to a public officer, includes that public officer's spouse, child, parent, brother, sister, grandchild, grandparent, uncle, aunt and other close relative.

2.7.11 Corrupt transactions by or with private bodies

(1) Any person who by himself, or by or in conjunction with any other person, corruptly solicits, accepts or obtains, or agrees to accept or attempts to receive or obtain, from any person for himself or for any other person, any advantage as an inducement or reward for doing or forbearing to do, or for having done or forborne to do, anything in relation to any matter or transaction, actual or proposed, with which any private body is or may be concerned shall be guilty of an offence.

(2) Any person who by himself, or by or in conjunction with any other person, corruptly gives, promises or offers any advantage to any person, whether for the benefit of that person or of any other person, as an inducement or reward for doing or forbearing to do, or for having done or forborne to do, anything in relation to any matter or transaction, actual or proposed, with which any private body is or may be concerned shall be guilty of an offence.

2.7.12 Corrupt transactions by or with agents

(1) Any agent who solicits, accepts or obtains, or agrees to accept or attempts to receive or obtain, from any person for himself or for any other person, any advantage as an inducement or reward for doing or forbearing to do, or for having done or forborne to do, anything in relation to his principal's affairs or business, or for showing or having shown favour or disfavour to any person in relation to his principal's affairs or business or otherwise acts corruptly in relation to his principal's affairs or business shall be guilty of an offence.

(2) Any person who gives, promises or offers any advantage to any agent as an inducement or reward for doing or forbearing to do, or for having done or forborne to do, anything in relation to his principal's affairs or business, for showing or having shown favour or disfavour to any person in relation to his principal's affairs or business or otherwise acts corruptly in relation to his principal's affairs or business shall be guilty of an offence.

(3) Any person who gives to an agent, or any agent who with intent to deceive his principal uses, any receipt, account or other document in respect of which the principal is interested or which relates to this principal's affairs or business and which contains any statement which is false or erroneous or defective in any material particular, and which to his knowledge or belief is intended to mislead the principal shall be guilty of an offence.

(4) Any person who, having, or claiming or pretending to have influence with a public body or a public officer, demands, accepts, offers or agrees to accept for himself or another person an advantage or does anything in order to corruptly exercise influence in connexion with any matter or business with the public body or public officer shall be guilty of an offence.

(5) For the purposes of subsections (1) and (2), the permission of a principal to the soliciting, accepting or obtaining of any advantage by his agent shall constitute a valid defence.

2.7.14 Corruption of members of public bodies in regard to meetings, etc.

(1) Any person who, being a member of any public body, by himself or by or in conjunction with any other person, corruptly solicits, accepts or obtains, or agrees to accept or attempts to receive or obtain, from any person, for himself or for any other person, any advantage as an Inducement or reward for—

(a) His voting or abstaining from voting at any meeting of such public body in favours of or against any measure, matter, resolution or question submitted to such public body; or

(b) His performing, or abstaining from performing, or for his aid in procuring, expediting, delaying, hindering or preventing the performance of, any official act by such public body; or

(c) His aid in procuring or preventing the passing of any vote or the granting of any contract or advantage in favour of any person shall be guilty of an offence.

(2) Any person who, by himself or by or in conjunction with any other person, corruptly gives promises or offers any advantage to a member of any public body in any such circumstances as are referred to in subsection (1) shall be guilty of an offence.

2.7.15 Advantage for giving assistance, etc., in regard to contracts

(1) Any public officer who directly or indirectly by himself, or by or in conjunction with any other person, corruptly solicits, accepts or obtains, or agrees to accept or attempts to receive or obtain, from any person for himself or for any other person, any advantage as an inducement or reward for or otherwise on account of his giving assistance or using influence in, or having given assistance or used influence in:-

(a) The promotion, execution, or procurement of:-

(i) Any contract with a public body or private body for the performance of any work, the provision of any service, the doing of anything or the supplying of any article, material or substance; or

(ii) Any subcontract to perform any work, provide any service, do anything or supply any article, material or substance required to be performed, provided, done or supplied under any contract with a public body or private body; or

(b) The payment of the price; consideration or other moneys stipulated or otherwise provided for in any such contract or subcontract, shall be guilty of an offence.

(2) Any person who corruptly gives, promises or offers any advantage to any public officer as an inducement or reward for or otherwise on account of such public officer giving assistance or using influence in, or having given assistance or used influence in:-

(a) the promotion, execution or procurement of; or

(b) the payment of the price, consideration or other moneys stipulated or otherwise provided for in any such contract or subcontract as is referred to in subsection (1), shall be guilty of an offence.

2.7.16 Advantage for procuring withdrawal of tenders

(1) Any person who directly or indirectly, by himself or by or in conjunction with any other person, corruptly solicits, accepts or obtains, or agrees to accept or attempts to receive or obtain from any person for himself or for any other person, any advantage as an inducement or reward for or otherwise on account of the withdrawal of a tender, or the refraining from the making of a tender, for any contract with a public body or private body for the performance of any work, the provision of any service, the doing of anything or the supplying of any article, material or substance, shall be guilty of an offence.

(2) Any person who corruptly gives, promises or offers any advantage to any other person as an inducement or reward for or otherwise on account of the withdrawal of a tender, or the refraining from the making of a tender, for such a contract as is referred to in subsection (1) shall be guilty of an offence.

2.7.17 Advantage in regard to bidding at auction sales

(1) Any person who directly or indirectly by himself, or by or in conjunction with any other person, corruptly solicits, accepts or obtains, or agrees to accept or attempts to receive or obtain from any person, for himself or for any other person, any advantage as an inducement or reward for or otherwise on account of his refraining or having refrained from bidding at any sale by auction conducted by or on behalf of any public body or private body shall be guilty of an offence.

(2) Any person who corruptly gives promises or offers any advantage to any other person as an inducement or reward for or otherwise on account of that other person refraining or having refrained from bidding at any auction as is referred to in subsection (1) shall be guilty of an offence.

2.7.18 Possession of unexplained property

(1) The Director, the Deputy Director or any officer of the Bureau authorized in writing by the Director may investigate any public officer where there are reasonable grounds to believe that such public officer:-

(a) maintains a standard of living above that which is commensurate with his present or past official emoluments or other known sources of income;

(b) is in control or possession of pecuniary resources or property disproportionate to his present or past official emoluments or other known sources of income; or

(c) is in receipt directly or indirectly of the benefit of any services which he may reasonably be suspected of having received corruptly or in circumstances which amount to an offence under this Act.

(2) Any public officer who, after due investigation carried out under the provisions of subsection

(1) is found to:-

(a) Maintain a standard of living above that which is commensurate with his present or past official emoluments or other known sources of income;

(b) Be in control or possession of pecuniary resources or property disproportionate to his present or past official emoluments or other known sources of income; or

(c) Be in receipt directly or indirectly of the benefit of any services which he may reasonably be suspected of having received corruptly or in circumstances which amount to an offence under this Act, shall, unless he gives a reasonable explanation, be charged with having or having had under his control or in his possession pecuniary resources or property reasonably suspected of having been corruptly acquired and, unless he gives a satisfactory explanation to the court as to how else he was able to maintain such a standard of living, or such pecuniary resources or property came under his control or his possession, or he came to enjoy the benefits of such services, he shall be guilty of an offence.

2.8 The Money Laundering Proceeds of Serious Crime and Terrorist Financial Act, 2006

Introduction

2.8.1 Definition of the Act

It is an Act to enable the unlawful proceeds of all serious crime and terrorist financing to be identified, traced, frozen, seized and eventually confiscated; to establish a Financial Intelligence Unit for the better prevention, investigation and prosecution of money laundering, terrorist financing and other financial and serious crime, to require financial institutions to take prudential measure to help combat money laundering and terrorist financing; and to provide for matters connected with or incidental to the foregoing.

2.8.2 Functions or duties of the Financial Intelligence Unit –

(a) Shall receive, analyze and assess report of suspicious transactions issued by financial institutions pursuant to section 28;

(b) Shall send any report referred to in paragraph (a) to the appropriate law enforcement authorities and, the supervisory authorities if, on the basis of its analysis and assessment, the Financial Intelligence Unit has determined that there is an element of money laundering or financing of terrorism;

(c) May enter the premises of any financial institution during ordinary business hours to inspect any record kept pursuant to section 28, and ask any question relating to such record, make notes and take copies of whole or any part of the record;

(d) Shall send to the appropriate law enforcement authorities, any information derived from an inspection carried out pursuant to paragraph (c), if it gives the Financial Intelligence Unit reasonable grounds to suspect that a transaction involves proceeds of crime or terrorist financing;

(e) May instruct any financial institution to take such steps as may be appropriate to facilitate any investigation anticipation by the Financial Intelligence Unit;

(f) May compile statistics and records, disseminate information within Malawi or elsewhere, make recommendations arising out of any information received, issue guidelines to financial institutions and advise the Minister accordingly;

(g) Shall create training requirements and provide such training for any financial institution I respect of transaction record –keeping and reporting obligations provided for in sections 27 and 28;

(h) May consult with any relevant person, institution or organization for the purposes of exercising its powers or duties under paragraph (e), (f) or (g);

(i) Shall not conduct any investigation into money laundering or terrorist financing other than for the purpose of ensuring compliance by a financial institution with the provisions of this Act;

(j) May extend assistance to foreign jurisdictions with respect to property tracking, monitoring and confiscation orders;

(k) Shall have the authority to request information from any financial institution, any supervisory agency and any law enforcement agency for purposes of this Act;

(l) May provide training programs for financial institutions in relation to customer identification, record keeping and reporting obligations and the identification of suspicious transactions;

(m) May periodically provide feedback to financial institutions and other relevant agencies regarding outcomes relating to the reports or information given under the Act;

(n) May conduct research into trends and developments in the area of money laundering and financing of terrorism and improved ways of detecting, preventing and deterring money laundering and terrorist financing;

(o) May educate the public and create awareness on matters relating to money laundering or terrorist financing;

(p) May disclose any report, any information derived from any report or any other information it receives to an institution or agency of a foreign state or of an international organization established by the governments of foreign states that has powers and duties similar to those of the Financial Intelligence Unit as set out in section 12, if on the basis of its analysis and assessment, the Financial Intelligence Unit has reasonable grounds to suspect that a report or information would be relevant to investigating or prosecuting a money laundering offence or terrorist financing;

(q) Pursuant to a memorandum of understanding enter into any agreements or arrangements with any domestic government institution or agency regarding the exchange of information;

(r) May require the police and other investigative or prosecutorial bodies to report progress and outcomes on matters referred to them; and

(s) May perform such other acts as may be necessary to fulfil the objectives of the Financial Intelligent Unit.

2.8.3 Money Laundering and Terrorist Financing

Financial Institutions to verify customer identity

(1) Every financial institution shall, before entering into business relationship with a customer, ascertain the identity of the beneficial owner on the basis of an official or other identifying document, and shall verify the identity of the customer on the basis of reliable and independent source documents, data or information or other evidence as is reasonably capable of verifying the identity of the customer when:-

(a) A financial institution –

(i) Enters into a continuing business relationship; or

(ii) In the absence of a business relationship, conducts any transaction.

(b) Carrying out an electronic funds transfer;

(c) There is a suspicion of money laundering offence or the financing of terrorism,;or

(d) The financial institution has doubts about the veracity or adequacy of the customer identification and verification documentation or information it had previously obtained.

(2) Without limiting the generality of subsection (1), every financial institution shall:

(a) When establishing a business relationship, obtain information on the purpose and nature of the business relationship; and

(b) if the transacting is conducted by a natural person, adequately identify and verify the identity of the person including information relating to:

(i) The name, address and occupation of the person; and

(ii) The national identity card or passport or the applicable official identifying document of the person, and take reasonable measures to establish the source of wealth and source of property of the person.

(c) If the transaction is conducted by a legal entity, adequately identify and verify its legal existence and structure, including information relating to:-

(i) The name, legal form, address and directors of the entity;

(ii) The principal owners and beneficiaries and control structure of the entity; and

(iii) Provision regulating the power to bind the entity, and verify that any person purporting to act on behalf of the customer is so authorized, and identifies those Persons.

(d) If the customer is a public official, in addition to the requirements in paragraph (b):-

(i) Have appropriate risk management system to determine whether the customer is a public official;

(ii) Obtain the approval of senior management before establishing a business relationship with the customer; and

(iii) Conduct regular enhanced monitoring of the business relationship.

(3) Every financial institution shall take reasonable measures to ascertain the purpose of any transaction in excess of such amount as the Minister may prescribe, from time to time by notice published in the *Gazette*, and the origin and ultimate destination of funds involved in the transaction.

(4) Every financial institution shall, in relation to its cross –border correspondent banking and other similar relationship:-

(a) adequately identify and verify the respondent institution with which it conducts such a business relationship;

(b) gather sufficient information about the nature of the business of the correspondent institution;

(c) determine from publicly available information the reputation of the person and the quality of supervision to which the correspondent institution is subject;

(d) assess the anti- money laundering and terrorist financing controls of the correspondent institution;

(e) obtain approval from senior management before establishing a new correspondent relationship; and

(f) document the responsibilities of the financial institution and the correspondent institution.

(5) Where the relationship is a payable-through account, a financial institution shall ensure that the institution with whom it has established the relationship:-

(a) Has verified the identify of, and performed on –going due diligence on such of, the customers of the institution that have direct access to accounts of the financial institution; and

(b) Is able le to provide the relevant customer identification data upon request to the financial institution.

(6) Where financial institution relies on an intermediary or third party to undertake its obligations under subsections (1) or (2) or to introduce business to it, it shall:-

(a) Immediately obtain the information and documents required by subsections (1) and (2);

(b) Ensure those copies of identification data and other relevant documentation relating to the requirements in subsection (1),(2) and (3)will be made available to the intermediary or the third party upon request without delay; and

(c) Satisfy itself that the third party or intermediary is regulated and supervised for, has measures in place to comply with the requirements set out in section 25, 26 and 27.

(7) Subsection (1), (2) or (3) does not apply

(a) If the transaction is part of an existing and regular business relationship with person who has already produced satisfactory evidence of identify, unless the financial institution has reason to suspect that the transaction is suspicious or unusual;

(b) If the transaction is an occasional transaction not exceeding such amount as the Minister may prescribe by notice published in the *Gazette*, unless the financial institution has reason to suspect the transaction is suspicious or unusual; or

(c) To such other person as the Minister may prescribe by notice published in the *Gazette.*

(8) The Minister, may by notice published in the *Gazette*, prescribe
(a) the official or identifying documents, or the reliable and independent source documents, data or information or other evidence that is required for identification or verification of any particular customer or class of customers:-

a. The threshold for, or the circumstances in which, the provisions of this section shall apply in relation to any particular customer or class of customers.

(9) In the case of an existing customer, financial institution shall verify the identity of the customer within such period as the Minister may prescribe by notice published in the Gazette.

(10) A person who contravenes this section shall be liable:

a) In the case of a fine natural person, to imprisonment for two years and to a fine of K100, 000; or
(b) In the case of a corporation, to a fine of K500, 000 and loss of business authority.

The necessity for identification of customers before entering into business with a customer ,failure to comply to sect 24 , if natural person is liable to imprisonment to two years and a fine of K100,000.00 but if a body corporate is liable to a fine of K500,000.00 and loss of business authority**(Section25**).

Financial Institutions to maintain accounts of customers in true name not fictitious names, false, or incorrect name, failure to comply , if natural person is liable to imprisonment to two years and a fine of K100,000.00 but if a body corporate is liable to a fine of K500,000.00 and loss of business authority**(Sect 26)**

Financial Institutions to establish and maintain customer's records. The records maintained under subsection (1) shall be made available upon request to the Financial Intelligence Unit, or competent authority for purpose of ensuring compliance with this Act and for purpose of an investigation and prosecution of an offence. A person who contravenes this section shall be liable :-

(a) I the case of a natural person, to imprisonment for two years and to a fine of K10, 000; and
(b) in the case of a corporation, to a fine of K500, 000 and loss of business authority **(Sec 27).**

Financial Institutions to report suspicion transactions (Sec 28)

(1) Whenever a financial institution processes a transaction exceeding such amount of currency or its equivalent in foreign currency as the Minister may, from time to time, prescribe by notice published in the *Gazette,* or suspects or has reasonable grounds to suspect that any transaction is related to the commission of a money laundering offence or terrorist financing, it shall as soon as possible but not later than three working days after forming that suspicion and wherever possible before the transaction is carried out:-

(a) Take reasonable measures to ascertain the purpose of the transaction, the origin and ultimate destination of the funds involved and the identity and address, of any ultimate beneficiary; and

(b) Prepare a report of the transaction in accordance with subsection (2), and communicate the information contained in the report to the Financial Intelligence Unit in writing or in such other form as the Director, may from time to time, approve.

A person who contravenes this section shall be liable:

(a) In the case of a natural person, to imprisonment for two years and to a fine of k100, 000; or
(b) In the case of a corporation, to a fine of K500, 000.0 and loss of business authority.

Supervisory authority or auditor to report any suspicious transactions to financial intelligence unit (Sec 29). (An auditor who contravenes this section shall be liable:

(a) in the case of a natural person, to imprisonment for one year and to a fine of K100, 000; and
(b) in the case of a corporation, to a fine of K500, 000 and loss of business authority.

Disclosure of suspicious transactions or other information reported or to be reported Financial Intelligence Unit is prohibited by this section 30, discloses to person information or other matter which is likely to prejudice any investigation of an offence or possible offence of money laundering under section 35 or terrorist financing under section 36, commits an offence and shall be liable on conviction to imprisonment for ten years and a fine of K10, 000,000. In proceedings for an offence against subsection (3), it is a defence to prove that the person did not know or have reasonable grounds to suspect that the disclosure was likely to prejudice any investigation of an offence or possible offence of money laundering or terrorist financing (Sec 30).

Protection of the identity of persons or information in suspicious transactions reports (Sect 31)

A person shall not disclose any information that will identify or is likely to identify:

(a) Any person who has handled a transaction in respect of which a suspicious transaction report has been made;
(b) Any person who has prepared a suspicious transaction Report;
(c) Any person who has made a suspicious transaction report; or
(d) Any information contained in a suspicious transaction report or information provided pursuant to section.

A person who contravenes this section shall be liable:-

(a) In the case of a natural person, to imprisonment for two years and to a fine of K100, 000; or
(b) In the case of a corporation, to a fine of K 500,000 and loss of business authority.

2.8.4 Money laundering Offices,

35(1) A person commits the offence of money laundering if the person knowing or having reasonable grounds to believe that any property in whole or in the part directly represents any person's proceeds of crime:-

(a) converts or transfers property knowing or having reason to believe that property is the proceeds of crime, with the aim of concealing or disguising the illicit origin of that property, or of aiding any person involved in the commission of the offence to evade the legal consequences thereof;
(b) conceals or disguises the true nature, origin, location, disposition, movement or ownership of that property knowing or having reason to believe that the property is the proceeds of crime;
(c) acquires, possesses or uses that property, knowing or having reason to believe that it is derived, directly or indirectly, from proceeds of crime; and
(d) Participates in, associate with or conspires to commit, attempts to commit and aids, abets and facilities the commission of any or omission referred to in paragraph *(a), (b)* or *(c)*.

(2) For purpose of proving of the money laundering offence under subsection (1), it is not necessary that the serious crime be committed.
(3) A person who contravenes this section commits an offence and shall, on conviction, be liable:

(a) in the case of a natural person, to imprisonment for ten years and, to affine of K2.000.000; and
(b) in the case of a corporation, a fine of K10, 00,000 and loss.

2.8.5 Terrorist financing offences

36(1) Every person who, by any means whatever, engages in terrorist financing activities, commits an offence.
(2) Every person who:-

(a) Organizes or directs others to commit; or
(b) Attempts to commit; or
(c) Conspires to commit; or
(d) Participates as an accomplice to a person committing, or attempting to commit an offence under subsection (1), commits an offence.

(3) Any person who commits an offence under this section shall, on conviction, be liable:-

(a) In the case of a natural person, to imprisonment for fifteen years and to a fine of K3, 000,000;or
(b) In the case of a corporation, to a fine of K15, 000,000 and loss of business authority.

2.8.6 Detention and release of currency or negotiable instruments seized

40(1) Currency and negotiable bearer instruments seized under section 38 or 39 shall not be detained for more than seven days after seizure, unless a court grants an order of continued detention for a period not exceeding three months from the date of seizure, upon being satisfied that:

(a) There are reasonable grounds to suspect that the currency or negotiable bearer instrument was derived from a serious crime, money laundering offence or an offence of financing of terrorism, or is intended by any person for use in the commission of any such an offence; and
(b) The continued detention of the currency or negotiable bearer instrument is justified while its origin or derivation is further investigated.

2.8.7 Power of Financial Intelligence Unit to obtain a search warrant

41(1) The Financial Intelligent Unit may apply to court for a warrant to enter any premises belonging to or in the possession or control of a financial institution, or any officer or employee there of and to search the premises and remove any document, material or other thing therein for the purpose of the Financial Intelligence Unit, as ordered by the court and specified in the warrant.

The property tracking and monitoring orders

42. For purposes of determining whether any such property belongs to or is in the possession or under the control of any person, competent authority may, upon application to the court, obtain an order:-

That any document relevant to:-

a) Identifying, locating or quantifying any such property, or
b) Identifying or locating any document necessary for the transfer of any such property, belonging to, or in the possession or control of the person be delivered forthwith to the competent authority;
c) That the financial institution produce forthwith to the competent authority all information obtained; and
d) About any procedures relating to contracts of the Government of Malawi.

2.10 General Requirements- *Section 92 (2*2.9 Treasury Instructions

Section 92 of the Public Finance Management Act, **2**003, "PFM Act 2003" states that the Secretary to the Treasury may issues Treasury Instructions setting out detailed procedures and requirements consistent with the Act in respect of any topic covered by the Act where it is considered necessary or desirable for carrying out or giving effect to the Act, and in general for the better control and management of public moneys and public resources.

These instructions shall be known as Treasury Instructions, and they shall be read in conjunction with the relevant provisions of the Constitution and the PFM Act.

The intent and financial management responsibilities are part of a hierarchy which flow initially, 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 PFM Act and they are amplified in the Accountant General's Desk Instructions and other related operational tools like Circulars.

2.9.1 Application of Treasury Instructions

The Treasury Instructions apply subject to the provisions of the Public Finance management Act (2003) and of any regulations made under this act to all Controlling Officers, Chief Executives and all employees of any MDA. It is the responsibility of every Controlling Officer and Chief Executive to ensure that the Instructions are complied with.

2.9.2 Relationship between Treasury Instructions and Circulars

Treasury instructions are issued under section 92 of the PFM Act. Treasury may issue instructions to MDAs for the purpose of:

a) requiring information to be supplied to Treasury to enable the Treasury to fulfil properly the functions imposed upon it by the Government or any Act;
b) prescribing the processes and data standards to be used when supplying the information required;
c) prescribing particular accounting policies and financial statement representation that MDAs must apply in their financial reporting;
d) prescribing terms and conditions that must apply to guarantees and indemnities referred to under section 63 of the PFM Act;
e) prescribing any other matters relating to the guarantees or indemnities referred to section 63 of the PFM Act;
f) regulating the collection, receipt, custody, issue, expenditure, control and management of public money or trust money; and
g) regulating the accounting and financial management and control) of the Act states that the Treasury Instruction may be issued and distributed in printed, electronic or other form of media.

Section 92 (3) states that Treasury Instructions shall:

a) be headed Treasury Instructions with an identifying number, and contain an explanatory head note;
b) State a commencement date;
c) Make reference to the enabling section of the authorising Act and to any other statutory provision or regulation to which the content relates;

d) State whether the Treasury Instruction is new, adds to or replaces a previous instruction and refer to the instruction being added to or replaced; and
e) Be signed by the Secretary to the Treasury.

2.11 Operating Procedures

Treasury Instructions provide specific directions in the implementation of Public Financial Policies. These instructions are supported by detailed operating procedures contained in relevant manuals including the Accountant General's Desk Instructions, the Internal Audit Charter, and the Budget Manual, the Debt and Aid Manual and any relevant circulars.

2.12 End of Chapter Summary

In this chapter you have looked at the legal frame work under-pining Public Sector Accounting. These are: The Constitution of the Republic of Malawi, 1994; The Public Finance Management Act (2003); The Public Audit Act (2003); The Reserve Bank of Malawi Act (1989); The Anti-Corruption Act, [1996] and The Money Laundering Act (2006. Any other regulation that parliament may enact from time to time will also be part of the learning as they cover the current legal issues in public sector accounting and finance.

Sample Question

1. Briefly explain the legal framework that regulates public sector financial operations in Malawi by giving a minimum of five examples.
2. Explain the functions and special powers of investigations of the Anti Corruption Bureau under the Anti Corruption Act of 1996.
3. Explain the composition of the Internal Procurement Committee and the roles played by each member of the committee according to Public Procurement Act of 2003.
4. Briefly explain the independence and powers of the Auditor General.
5. Discuss at least five of each of the principle objectives, powers and functions of the Reserve Bank of Malawi.
6. Explain the functions and duties of the Financial Intelligence Unit under the Money Laundering Act of 2006(MLA).

Chapter 3

REGULATORY FRAMEWORK FOR PUBLIC FINANCIAL MANAGEMENT

3.0 Introduction

In this chapter, will look at the regulatory framework for public sector accounting and finance management.

3.1 Learning Objectives

At the end of this chapter, students are expected to:

1. Explain the regulatory framework of public sector accounting and finance.
2. Discuss accounting concepts and generally accepted accounting principles
3. Explain the role of the International Public Sector Accounting Standards Board (IPSASB) and how the board is set up.

3.2 Regulatory Framework

The regulatory framework of public sector accounting and finance consists of:

- accounting concepts and individual judgement;
- accounting standards;
- other international influences;
- generally accepted accounting principles (GAAP); and
- fair presentation.

3.2.1 Accounting Concepts

Concepts have been defined as broad basic assumptions which underlie the preparation of financial statements of an enterprise.
Financial statements are prepared on the basis of a number of fundamental accounting assumptions and conventions. Many figures in financial statements are derived from the application of generally accepted accounting practice (GAAP) in putting these assumptions into practice. It is clear that different people exercising the use of different assumptions on the same facts can arrive at different conclusions.

3.2.2 Accounting Standards

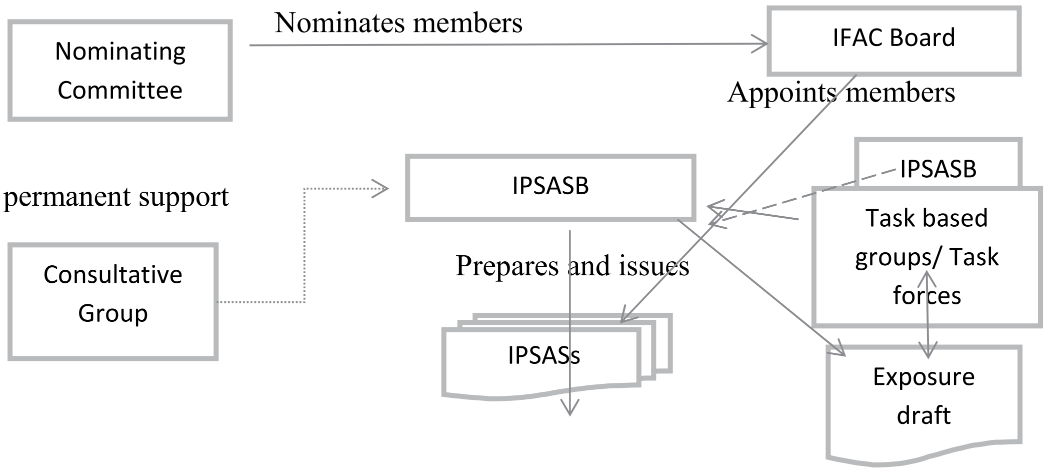
The International Public Sector Accounting Standards (IPSAS) govern the accounting by public sector entities with the exception of Government Business Enterprises. Government Business Enterprises are governed by the International Financial Reporting Standards (IFRS).
IPSAS are developed by the International Public Sector Accounting Standards Board (IPSASB) which is an independent board founded by the International Federation of Accountants (IFAC) to develop and publish IPSAS.

The IPSASB purpose is not only to set standards for the general purpose financial statements but also to take care of the general purpose financial reporting (GPFRs). GPFRs refer to all financial reports which are intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.

3.2.3 Structure and organisation of IPSASB.

The members of IPSASB board are appointed based on recommendation by nominating committee by IFAC. The appointments are then made by the IFAC considering technical and professional criteria and gender balance.

The chart below shows the structure and organisation of IPSASB.



3.3 Objectives of IPSASB

The primary objective of the IPSASB is to develop and issue IPSASs as well as other guidance and resources for use by public sector entities around the world. IPSASB serves the public interest by developing high quality accounting standards for the public sector and by facilitating the convergence of international and national standards where by enhancing the quality and standardisation of financial reporting around the world. It is in the public interest to continue developing public sector accounting by means of IPSASB standardisation project. This is achieved by:

- Publishing International Public sector accounting standards
- Promoting their acceptance and compliance on an international scale.
- Publishing other documents that contain guidance on issues and experience with financial reporting in the public sector.

3.4 Scope of the International Public Sector Accounting Standards

IPSAS are currently intended for application for general purpose financial statements of all public sector entities. Public sector entities generally include national and regional government. IPSAS do not apply to Government Business Enterprises. A government business enterprise within the meaning of IPSAS is an entity that has all of the following characteristics:

1. It is an entity with the power to contract in its own name;
2. It has been assigned the financial and operational authority to carry on a business;
3. It sells goods and services in the normal course of its business to other entities at profit or full cost recovery;
4. It is not reliant on continuing government funding to be a going concern (other than purchases of the outputs at arms length); and
5. It is controlled by a public sector entity.

3.5 Current IPSASs

The current list of IPSASs with corresponding IFRSs is as follows:

IPSAS	Title	Corresponding IFRS
IPSAS 1	Presentation of financial statements	IAS 1
IPSAS 2	Cash flow statements	IAS 7
IPSAS 3	Accounting policies, changes in accounting estimates and errors	IAS 8
IPSAS 4	The effects of changes in foreign exchange rates	IAS 21
IPSAS 5	Borrowing Costs	IAS 23
IPSAS 6	Consolidated and separate financial statements	IAS 27
IPSAS 7	Investments in associates	IAS 28
IPSAS 8	Interests in joint ventures	IFRS 11
IPSAS 9	Revenue from exchange transactions	IAS 18
IPSAS 10	Financial Reporting in Hyperinflationary economies	IAS 29
IPSAS 11	Construction Contracts	IAS 11
IPSAS 12	Inventories	IAS 2
IPSAS 13	Leases	IAS 17
IPSAS 14	Events after the reporting date	IAS 10
IPSAS 15	Financial Instruments : Disclosure and Presentation	IFRS 7, IAS 39.
IPSAS 16	Investment Property	IAS 40
IPSAS 17	Property, Plant and Equipment	IAS 16
IPSAS 18	Segment Reporting	IFRS 8
IPSAS 19	Provisions, contingent liabilities and contingent assets	IAS 37
IPSAS 20	Related party disclosures	IAS 24
IPSAS 21	Impairment of non- cash generating assets	No Corresponding IFRS
IPSAS 22	Disclosure of financial information about the general government sector	No Corresponding IFRS
IPSAS 23	Revenues from non-exchange transactions (taxes and transfers)	No Corresponding IFRS
IPSAS	Title	Corresponding IFRS
IPSAS 24	Presentation of Budget information in financial statements	No Corresponding IFRS
IPSAS 25	Employee Benefits	IAS 19
IPSAS 26	Impairment of Cash Generating Assets	IAS 36
IPSAS 27	Agriculture	IAS 41
IPSAS 28	Financial Instruments: Presentation	IAS 32, IFRS 9
IPSAS 29	Financial Instruments: Recognition and measurement	IAS 39, IFRS 9, IFRIC 16
IPSAS 30	Financial Instruments: Disclosures	IFRS 7

IPSAS 31	Intangible Assets	IAS 38, SIC 32
IPSAS 32	Presentation of Financial Statements	Mirror to SIC 12
Cash Basis IPSAS	Cash flow Statements	

The following are the current IPSASB Exposure Drafts:

ED 48: Separate Financials
ED 49: Consolidated financial statements
ED 50: Investments in Associates and Joint Ventures
ED 51: Joint Arrangements
ED 52: Disclosure of interests in other entities
ED 53: First time adoption of Accrual based IPSAS
ED 48-52 will replace the current requirements in three international public sector accounting standards; IPSAS 6: Consolidated and separate financial statements, IPSAS 7: Investment in Associates, IPSAS 8: Interests in Joint Ventures.

3.6 IPSAS Conceptual Frame Work

The conceptual framework for General Purpose Financial Reporting by Public Sector Entities establishes and makes explicit the concepts that are to be applied in developing International Public Sector Accounting Standards (IPSASs) and recommended Practice Guide lines (RPGs) applicable to the preparation and presentation of general purpose financial reports (GPFRs) of public sector entities.

3.7 Desk Instructions

Detailed procedures are set out Government Accounting in the form of Desk Instructions with a view to:

(i) Unify the procedures adopted in different Ministries and Departments;
(ii) Rationalize and simply procedures;
(iii) Provide on-the-job instructions to staff working in accounts offices; and
(iv) Facilitate training of accounts personnel.

3.8 End of Chapter Summary

The chapter looked at the regulatory framework of public sector accounting and finance consisting of accounting concepts and individual judgement; accounting standards; other international influences; generally accepted accounting principles (GAAP) and fair presentation.

You learned the dentition of Concepts as broad basic assumptions which underlie the preparation of financial statements of an enterprise.

Financial statements are prepared on the basis of a number of fundamental accounting assumptions and conventions. Many figures in financial statements are derived from the application of generally accepted accounting practice (GAAP) in putting these assumptions into practice.

You learned that the International Public Sector Accounting Standards (IPSAS) govern the accounting by public sector entities with the exception of Government Business Enterprises. Government Business Enterprises are governed by the International Financial Reporting Standards (IFRS).

IPSAS are developed by the International Public Sector Accounting Standards Board (IPSASB) which is an independent board founded by the International Federation of Accountants (IFAC) to develop and publish IPSAS.

Sample Questions

1. Explain the regulatory framework of public sector accounting and finance.

2. Discuss accounting concepts and generally accepted accounting principles.

3. Explain the role of the International Public Sector Accounting Standards Board (IPSASB) and how the board is set up.

Chapter 4

PUBLIC MONEY

4.0 Introduction

This chapter is looking at the definition of public funds or money, the process of appropriation of public money, components of the consolidated fund, and modalities of withdrawal of funds from the consolidated fund, investing in public money and appropriation balances.

4.1 Learning Objectives

By the end of this chapter, the student should be able to:

l) Define public money (funds);
m) Describe the constituents. of public money;
n) Describe the components of consolidated funds;
o) Discuss the process of appropriation of public money;
p) Explain how public money can be invested; and
q) Describe the accounting treatment of appropriation balances at year end by MDAs.

4.2 Definition of Public Money (Funds)

Section 2 of the PFMA (2003) defines public money as all money other than trust money received by the Government, including all revenue, grants, loans and other moneys, and all bonds, debentures, and any other securities received by, or on account of, or payable to , or belonging to , or deposited with the Government or any Ministry by:

a) Any officer of Government in his capacity as such:; or
b) Any person on behalf of Government

Public money is the property of the state. This is in accordance with Section 31(1) of the PFMA. Section 31(2) further states that public funds shall be paid into banks accounts designated by the ST for that purpose and such accounts shall form part of the Consolidated Fund.

You should be aware that the Act also defines Public Resources. Public Resources means all real or personal property that belongs to or is owned or held by the State or held by any Ministry, agency or other person for and on behalf of the State or the Government.

4.3 The Constituents of Public Money

4.3.1 The Consolidated Fund

Section 172 of the Constitution defines Consolidated Fund as all revenues or other monies raised or received for the purposes of the government shall, subject to the

Constitution, and in any Act of Parliament, being paid into and form one fund, to be known as the Consolidated Fund.

The Consolidated Fund is where all public money is deposited and from which the Secretary to the Treasury finances the operations of Government from the Consolidated Fund. The Constitution provides that:

(1) All revenues and other moneys raised or received by the Government shall be paid into the Consolidated Fund; and

(2) No money shall be withdrawn from the Consolidated Fund except to meet expenditure that is charged on the Fund by the Constitution or by any other Act of Parliament, and then only in the manner so prescribed by Parliament.

4.3.2 Components of Consolidated Fund

The Consolidated Fund is classified into the following accounts:

(a) The Consolidated Deposit Account;
(b) The Consolidated Advance Account; and
(c) The Consolidated Revenue Account.

4.3.3 Consolidated Deposit Account

The Consolidated Deposit Account shall consist of the Development Fund and the Treasury Fund.

a) **The Development Fund**

The Development Fund is established by section 182 of the Constitution. All development monies shall be paid into the Development Fund and accounted for in a separate account in the consolidated account. The estimates of expenditure to be made from the Development Fund shall show the total estimated costs of each project and the amount estimated to be required for expenditure during the current year in respect of such projects.

b) **Treasury Fund**

A Treasury Fund is a government institution that operates as a commercial entity:

a) The Minister of Finance shall, on the recommendation of the Secretary to the Treasury, by order published in the gazette, establish special funds to be known as Treasury Funds, and shall make orders for the regulation and management of such Treasury Funds.

b) Where a Treasury Fund is established under the PFM Act, the Secretary to the Treasury shall ensure that separate accounts are maintained within the Consolidated Deposit Account in respect of the Treasury Fund which shall be regulated and managed in accordance with orders made by the Minister for that purpose.

4.3.4 Consolidated Advances Account

a) No advance shall be made except from an advances account. Applications for authority to open an advance account shall be made in writing to the Secretary to the Treasury.

b) Approval for the opening of an advance account shall be conveyed by the Secretary to the Treasury, copies of which shall be sent to the Accountant General and the Auditor General.

4.3.4.1 Personal Advances

a) Authority for Advances of Salary
Controlling Officers shall authorize advances of salary within the limits stated in the Malawi Public Service Regulations provided funds are available from the block allocation made to them. Except for Emergency Advance, all other types of advances for senior officers shall be obtained from commercial banks approved by the Secretary to the Treasury. Controlling Officers shall ensure that procedures contained in the guidelines for accessing loans from banks are strictly followed.

b) Recoveries of Personal Advances obtained from Government:

i. Recoveries of advances made to officers whose salaries are paid through the automated payment system shall appear as deductions on the payroll. Where the advance is obtained from commercial banks deductions shall be made at source from officer's bank account.

ii. Where recoveries are made in cash or by bank certified cheque, such payments shall be brought on charge and an official receipt issued to the officer specifying the amount of capital and interest included in the recovery.

c) **Clearance of Personal Advances obtained from Government:**

i. Where an officer's services are terminated for any reason or when an officer resigns from employment, the Controlling Officer shall ensure that any advances and interest due to Government and bank are recovered from the officer's leave salary or terminal benefits.

ii. Where an officer dies in the service any outstanding advances shall be recovered from the officer's terminal benefits.

4.3.4.2 Advances Register

All pay officers arranging payment of advances shall record each advance in a register.

4.3.2.3 Inter Ministerial Posting

Where a last pay certificate is issued on the occasion of an officer's transfer, full details of each outstanding advance shall be indicated on that certificate.

4.3.2.4 Irrecoverable Advances

Where an advance proves irrecoverable the amount shall be reported to the Accountant General as a loss.

4.3.4.5 Overpayments

In the event an officer is overpaid or surcharged, the amount involved shall be recovered in full at once unless repayment by instalment is authorized. In cases where the amount involved shall be recovered by instalments, the full amount of the overpayment or surcharge shall be debited to an advance account in the name of the officer.

4.3.5 Loans for Public Servants

The Secretary to the Treasury shall make arrangements, to be specified in the Malawi Public Service Regulations (MPSR), for Public Servants to access loans from Financial Institutions**.**

4.4. Appropriation of public money (Section 23)

Section 23 of PFMA, states that subject to section 178 of the Constitution, no public money shall be expended unless the expenditure had been authorised by an Appropriation Act in accordance with subsection (2) of the Act or is statutory expenditure:

4.4.1 When the Estimates of Voted Expenditure on Revenue Account have been approved by the National Assembly, parliamentary authority for the provision of the necessary funds shall be given by means of an Appropriation Act which appropriates the sums required for each Vote. Similarly, once the Development Account Estimates have been approved by the Assembly, an Appropriation (Development Fund) Act shall be passed to give parliamentary authority for the provision from the Development Fund, of the total amount required in the financial year to meet all expenditure not previously appropriated.

4.4.2 When the parliamentary authority detailed above has been obtained, the Minister of Finance, by means of a General Warrant, shall authorize the withdrawal from the Consolidated and Development funds of the sums required to meet all approved and appropriated expenditure. However, should the Appropriation Act not come into operation by the beginning of the financial year, the Minister of Finance shall, subject to section 178 of the Constitution, issue a provisional General Warrant authorizing the withdrawal of the funds required to meet expenditure necessary to carry on the services of Government until the Appropriation Act is in force. Once the Act is in force, the Provisional General Warrant shall be replaced by a General Warrant. Controlling Officers shall be informed, by means of a Treasury Circular Minute which empowers them to incur expenditure, from the effective date of the Warrant.

4.4.3 If the Estimates have not been approved by the start of a financial year, and a provisional General Warrant has been issued, printed proof copies of the Estimates shall be distributed to Controlling Officers under cover of a Treasury Circular Instruction. This Treasury Circular shall inform Controlling Officers of the percentage limit of expenditure which shall be incurred against the provisions in the printed Estimates and of any other limitations on expenditure.

4.4.4 The authority to spend on Revenue Account given by a General Warrant shall cease on the last day of the financial year to which it relates. Further, should circumstances warrant it, the Minister of Finance shall at any time in the year limit or suspend any expenditure previously authorised.

4.5 Investing Public Money (Section 35)

In Financial Management, it is prudent to invest surplus funds. This may bring additional income to the investor. The government is no exception. Section 35 of the PFMA empowers the Secretary to Treasury to invest balances of the Consolidated Fund. Specifically, The Secretary to the Treasury may investment of any balances of the Consolidated Fund, or any part thereof, at call or for such period and on such terms as deemed fit at any bank and in such other securities as the Minister shall declare such securities consistent with the financial policies of Government. Interest earned on the investments should be credited to the Consolidated Fund and may be used only in accordance with an Appropriation Act. Public securities, as defined by the PMFA mean securities representing the investment, or securing the payment, of any public money.

Apart from investing balances of the Consolidated Fund, the ST may transfer any balances or part of any balance of any fund or account within the Consolidated Fund to another fund or account within the Consolidated Fund for such periods and terms as he thinks fit. This is in line with Section 36(1) of the PFMA. The amounts transferred are deemed to have been borrowed and should be restored to the other account before the end of the financial year in which the transfer was made (Section 36 (2)). Interest may also be charged on the borrowed funds.

Accounting For Appropriation Balances at Year End by Ministries, Departments and Agencies (MDAs)

At the end of year, the unspent balances should be transferred to the Consolidated Fund (Malawi Government Account Number 1).

4.6 End of Chapter Summary

The chapter looked at the definition of public money. You learned that as per Section 2 of the Public Finance Management Act (2003) as being all money other than trust money received by the Government, including all revenue, grants, loans and other moneys, and all bonds, debentures, and any other securities received by, or on account of, or payable to, or belonging to, or deposited with the Government or any Ministry by:

a) Any officer of Government in his capacity as such:; or
b) Any person on behalf of Government.

Public money is the property of the state. This is in accordance with Section 31(1) of the PFMA. Section 31(2) further states that public funds shall be paid into banks accounts designated by the ST for that purpose and such accounts shall form part of the Consolidated Fund.

You also learned that the Act also defines Public Resources to mean all real or personal property that belongs to or is owned or held by the State or held by any Ministry, agency or other person for and on behalf of the State or the Government

Sample Questions

1. Define public money (funds).

2. Describe the constituents of public money.

3. Describe the components of consolidated funds.

4. Discuss the process of appropriation of public money.

5. Describe the accounting treatment of appropriation balances at year end by MDAs.

Chapter 5

PUBLIC PROCUREMENT

5.0 Introduction

Procurement is an important activity in the public sector. Research indicates that the budgets that are prepared, 70 percent is allocated to procurement. Public procurement involves the use of public funds. It is imperative that proper procedures are followed when procuring using public funds to as to get value for money. Therefore, this chapter will focus the procurement structures as indicated in the Public Procurement Act, show how the Internal Procurement Committee (IPC) is composed, the functions of the IPC, methods of procurement in the public sector and systems of stores and disposal of non-current assets. The chapter will also look at the role of accountants in procurement.

5.1 Learning Objectives

By the end of this chapter, students should be able to:

h) Explain the structure of the internal procurement committee.
i) Describe the procurement structures in the Public Procurement Act.
j) Explain the methods of procurement in the Public Procurement Act and the impact on expenditure management.
k) Describe the tendering procedures with particular reference to invitation of tenders, submission of tenders, and evaluation and comparison of tenders and engaging the services of consultants.
l) Describe the procedures for disposal of stores, plant and equipment.
m) Discuss the role of Accountants in public procurement.

5.2 Definition of Procurement

The Public Procurement Act (2003) defines procurement as the acquisition by any means of goods, works or services. The Act also defines public funds as any monetary resources appropriated to procuring entities through budgetary processes, aid grants, and credits put at the disposal of procuring entities by foreign donors or revenues of procuring entities. Therefore, it can be deduced that public procurement is the acquisition by any means of goods, works or services using public funds.

5.3 Principles of procurement

Section 18 (1) states that Public officials involved in requisitioning, planning, preparing, and conducting procurement proceedings, and administering the implementation of procurement contracts, shall:

a) discharge their duties impartially so as to assure fair competitive access to public procurement by bidders;
(b) always act in the public interest, and in accordance with the objectives and procedures set forth in this Act and the Regulations;

(c) at all times avoid conflicts of interest, and the appearance of impropriety, in carrying out their duties and conducting themselves, and shall not interfere in the work of Internal Procurement Committees; and

(d) not commit or abet corrupt or fraudulent practices, including the solicitation or acceptance of improper inducements.

5.4 Procurement structures in the Public Procurement Act (PPA) Section 8

(1) PPA states that there shall be established in all Ministries, departments and parastatal organizations, and other entities and authorities of public administration in Malawi, Internal Procurement Committees.

(2) Procuring entities are responsible, and Controlling Officers and other officials concerned are accountable, for procurement in accordance with this Act and any Regulations and other applicable laws, regulations, and instructions applicable in Malawi.

Procurement set ups or structures in Malawi

i. Procurement Unit (PU)
ii. Internal Procurement Committee (IPC)
iii. Office of the Director of Public Procurement (ODPP)/
iv. Donors/Management

5.4.1 Structure of Internal Procurement Committee (IPC)

According to section 9 of the PPA, the IPC should be made up of the following personnel who shall be well informed concerning public procurement, trained in procurement and whose professional qualifications meet the requirements that may be established by the head off the procuring entity (Controlling Officer), in accordance with guidelines to be issued by the Director:

i. The Controlling Officer or where there is no designated CO, the head of procuring entity or his or her appointee shall chair the IPC;
ii. A procurement professional; and
iii. An accountant or other budget professional, as well as an engineer or technician familiar with the substance of the procurement.

In the case of procurement exceeding such thresholds as may be prescribed by the Director for goods, works and consultancy services up to three external members nominated by the Director, who shall be:

i. A procurement professional;
ii. Technical expert and professional in the relevant field; and
iii. Neutral member from agencies such as National Audit Office, Accountant General or Ministry of Finance.

The minimum number of members in the IPC is THREE as per the requirement of the Act. This implies that no IPC meeting can proceed without the presence of:

i. Controlling Officer or his/her deputy (Chairman);
ii. Head of Procurement unit (or his/her deputy); and
iii. Head of Accounts (or his/her deputy).

The majority of IPC Members shall be present.

5.4.2 Functions of Internal Procurement Committee (IPC)

According to S 8(3) of the Act, the functions of IPC shall include:

a) Ascertaining the availability of funds to pay for each procurement.
b) Verifying proper procurement planning and preparation of procurement proceedings.
c) Ascertaining the stock positions of the goods to be procured.
d) Approving draft advertisement and bidding documents.
e) Opening of bids.
f) Conducting preliminary screening of bids opened.
g) Rejecting bids that do not comply with the instructions to bidders.
h) Comparing and evaluating bids and selecting the successful bidder.
i) Approving specific terms and conditions relating to Contract Amounts, Completion periods, Stages and Conditions of Part Payments.
j) Assessing the quality of the procured goods, works and services.

k) Considering and approving contract variations above thresholds as set by ODPP Maintaining minutes of the IPC meetings.

Procurement involves the following steps:

i. Procurement planning
ii. Preparation of bidding documents
iii. Invitation of bids
iv. Receiving and Opening of bids
v. Evaluation of bids
vi. Bid evaluation challenges
vii. Award of contract

5.5 Methods of procurement (what the methods mean, & their use)

Method	Explanation	Conditions of Use	Applicable Section in PPA
1.Open tendering	• This is the most recommended method • Targets all potential bidders • Could be local or international	• To be used at all times. • May be waived in the case national - defence or national - security –related procurement	30(1), 30(2)
2.Restricted tendering	• Not open to all bidders	• When goods , works or services are only available from a limited number of suppliers, all of whom are known to the procuring entity; • When the time and cost of considering a large number of tenders is disproportionate to the value of the procurement	30(3)
3.Request For Proposals (RFP)	• Method to be used for the procurement of consultancy services and other types of intellectual services		30(7)

Method	Explanation	Conditions of Use	Applicable Section in PPA
4. Request For Quotations (RFQ)	• Method applicable when procuring good, works and services	Applicable for procuring : Readily available commercially standard goods not specifically manufactured to the particular specifications of the procuring entity When the estimated value of the procurement does not exceed the amount set by the regulation Small works , when the estimated value of the procurement does not exceed the amount set by regulation Routine services when the estimated value of the procurement does not exceed the amount set by regulation	30(8),30(9)

Method	Explanation	Conditions of Use	Applicable Section in PPA
5.			
6. Single Sourcing	Method targeting one supplier only	a) when the estimated value of the procurement does not exceed the amount set by regulation. b) when only one supplier has the technical capability or capacity to fulfil the procurement requirement or When one supplier has technical capability or capacity to fulfil the procurement requirement or one supplier has exclusive right to realise manufacture of the goods, carry out the works, or perform the services to be procured. c) When there is an emergency needs for the goods, works and services, involving an imminent threat to the physical safety of the population or damage to property, or engaging in tendering proceedings, or	30(10)

		other procurement methods will be therefore impracticable or d) When the procurement entity, having procured goods, works and services from supplier, determines that additional goods, construction or services must be procured from the same sources for reasons for standardisation.	

S30 (1) Public procurement shall be realized by means of open tendering proceedings, subject to the exceptions provided in this section, and outlined in the Schedule.

(2) Subject to the approval of the Director, the application of subsection (1) may be waived in the case of national-defense or national-security-related procurement to the extent that such procurement is determined to be of a sensitive nature, in accordance with the schedule of items eligible for such special treatment set forth in the Regulations, but so however that items such as general stores, informs, stationary, computers, and standard vehicles may not be classified as sensitive items.

5.7 The role of Accountants in public procurement

Procurement involves the use of financial resources when settling the obligations which would have arisen during the procurement process. The implication of this is that procuring entities should ensure that the organisation has funds before procuring. This has also been highlighted as one of the functions of the internal Procurement Committee. Accountants need to come in at this point. So when the procuring entity is formulating its procurement plan, accountants should ensure that the planned procurements should be incorporated in the budgets which will be prepared. At this level, accountants should see to it that funds are available before procuring.

The other role of the accountant in procurement is that they should ensure that all the payments that are made in relation to procurement activities have supporting documents. The documents may include good received note or certificates of completion in the case of works. This is an important aspect in internal controls. It is alleged that as part of the cash gate scandal, millions of kwachas were paid out to suppliers who did not provide goods or services.

Accountants should also ensure that value for money has been achieved in procurements. This will involve focusing on the three Es; Efficiency, Economy and Effectiveness. You will cover the concept of value for money in chapter 16.

5.8 End Chapter Summary

In this chapter you have looked at the definition of public procurement, the players in public procurement. You have also looked at the composition of the Internal Procurement Committees (IPC) and its functions. According to the Public Procurement Act (2003), accountants are represented in the IPC. The chapter has tackled the procurement methods which are recommended by the Act. The most recommended procuring method is open tendering because it facilitates completion among those who would want to take part in the procurement process.

Sample Questions

a) There are several players that are involved in public procurement. Describe these players and the role they play in public procurement.

b) Discuss the functions of the Internal Procurement Committee (IPC).

c) Discuss the procurement methods that are the disposal of procuring entities as per the requirements of the Public Procurement Act (2003).

d) Highlight the role of accountants in public procurement.

Chapter 6

BUDGETING PROCESSES IN THE PUBLIC SECTOR

6.0 Introduction

In this Chapter, the Budgeting processes in the public sector will be discussed Public including the provisions of budgeting in the Public Finance Management Act (2003). Budgeting is the starting point in the Public Finance Management Cycle therefore special attention need to be provided to the processes in budgeting. The management of the budget and reallocations between the budgets will be discussed as well including the limitations of budgeting.

6.1 Learning Objectives

At the end of this Chapter, the Students will be required to:

a) Define government budget;
b) Explain the various types and categories of budget;
c) Explain the differences between cash and accrual based budgeting;
d) Explain the concept of virements and the circumstances allowed;
e) Describe the budgeting processes in the budget cycle; and
f) Explain the limitations of budgets.

6.2 Definition OF Government Budget

Treasury Instructions define a budget as a financial plan that outlines how available resources are to be spent on prioritised needs over a period of time. A government budget is a fiscal policy instrument which is prepared by the executive branch of government and passed by parliament. It is a balance between the branches of government, the needs of the people, and the capacity to provide those needs.

A budget can also be defined as a government plan quantified in monetary terms, prepared and submitted to the National Assembly for approval and noting usually showing planned revenue, grants and expenditure to be received or incurred, respectively, in the ensuing financial year. It can also be described as:

a) A statement of resources and expenditure anticipated during the budget period.
b) A plan, programme or activity to be carried out within a period of one year or more.
c) A control document that sets out the limits and purpose within which expenditure can be compared.

Clearly, budgeting and planning are closely linked. The budget reflects the organization's policies over the period covered and represents a statement of intent which performance can be compared.

6.3 Purpose of Budgeting

A budget provides:

a) A framework for responsibility accounting;
b) A basis for coordination, planning and control;
c) A tool for decision making; and
d) A tool for monitoring and evaluation of objectives.

6.4 Principles of Budgeting

Based broadly on statutory and other requirements of the Constitution of the Republic of Malawi, the guiding principles of budgeting are:

6.4.1 Principle of Annuality

Presentation of budget is in respect of the ensuing financial year only. The grants authorised by the legislature are valid for one financial year and cannot be carried forward to the next year. Consequently, the unutilized funds lapse at the end of the financial year.

6.4.2 Principle of Comprehensiveness

Budget includes the estimates of all foreseeable items of receipts and expenditure, contains full information on current programs and activities and presents a correct picture of the financial position of the government.*6.4.3 Principle of Specific and Clarity*

All items of incomes and expenditure shall be specific to programs and activities and not lump-sum provisions. This facilities proper scrutiny at all levels and helps all concerned parties to monitor the budget and exercise budgetary control.

6.4.4 Principle of Accuracy

Gross underestimation and overestimation are serious budgetary irregularities. Thus, budgetary provisions should neither be more or less. This is of course subject to variations resulting from unforeseen development or circumstances.

6.4.5 Principle of non diversion of funds

It is not permitted to divert funds authorised under one activity/ item to meet excess expenditure elsewhere.

The Controlling Officers are expected to be watchful as regards progress on both receipts and expenditure side. There should be continuous assessment of program and financial performance to encourage progress toward achieving goals.

6.5 Budget Classifications

IPSAS 24 defines the **ORIGINAL BUDGET** as the initial approved budget for the budget period.

6.5.1 Approved Budget means the expenditure authority derived from laws, appropriation bills, government ordinances and other decisions related to the anticipated revenue or receipts for the budgetary period.

6.5.2 Final Budget is the original budget adjusted for all reserves, carry over amounts, transfers, allocations, supplemental appropriations, and their authorized legislative, or similar authority, changes applicable to the budget period.

6.6 Parliamentary Appropriation and the Budget.

Government receipts and expenditure are classified under two broad categories to provide management information for financial control purposes. Financial transactions for the government fall into two broad categories, Budgetary Accounts and Below-The-Line Accounts.

1.1.1 Budgetary Accounts include: -

a) Recurrent Budget;
b) Development;
c) Receipts; and
d) Resources.

1.1.2 Below-the-Line Accounts include:-

a) Cash Accounts;
b) Cash Remittances;
c) Imprest;
d) Advances;
e) Deposits;
f) Investments e.g. Treasury Fund and Trust Fund.

6.6.1 Budget forecasts

A budget forecast shall provide a breakdown of expected revenue and expenditure for the year in question and for the two forward years in respect of each proposed item of appropriation.

A budget forecast must include descriptions of planned programs, or outputs in a format outlined in the budget circular and the budget manual.
Controlling Officers must provide to the Secretary to the Treasury of Finance with a forecast of the monthly cash flow for all expenditure and revenue items included in its budget.

The Secretary to the Treasury shall set the deadline for presentation of budget submissions after consultation, and this information shall be provided in the budget circular.

A consolidated budget forecast (including consolidated Government budgets and individual Ministry budgets) shall, upon the full adoption of generally accepted accounting principles, include financial statements which cover:-

a) financial position;
b) financial performance;
c) cash flows;
d) borrowings
e) commitments;
f) specific fiscal risks;
g) other statements consistent with generally accepted accounting principles; and
h) accounting policies.

The Ministry of Finance shall advise Ministries of the format in which the statements listed above, or parts thereof required to be prepared, should be presented. For further clarification, more detail is contained in these Instructions under Monitoring and Financial Reporting.

The Government budget shall include economic forecasts aggregated by Ministry of Finance with information provided by the relevant specialist Ministries and departments. The economic forecasts shall include -

a) gross domestic product broken down by major components;
b) consumer prices;
c) employment levels;
d) balance of payments;
e) any other information deemed necessary by the Minister of Finance or Ministry of Finance; and
f) a statement of all significant assumptions used in formulating the forecasts.

6.6.2 Budget Policy Statement [Section 15 of the PFM Act]

The Minister will lay before the National Assembly, with the Estimates, a written budget policy statement:

The Budget Policy Statement shall include:

a) a budget message, which shall include such include such supporting financial, statistical, output performance, and other information, data and recommendations as the Minister may determine are in the public interest and consistent with the principles of fiscal responsibility.

b) A statement, including forecasts, providing a projection of expenditures for each category of outputs for the ensuing financial year and the two years following that financial year including:

i. The details of the estimated revenue of the Government.
ii. The details of the estimated expenditures of the Government
iii. The government's debt management responsibilities and, where applicable, the details of a financial plan to meet those responsibilities; and
iv. A statement that the annual budget is fiscally responsible

6.6.3 Presentation of Estimates [section 21 of the PFM Act)

The following steps shall be followed for the presentation of the proposed [statements] [budget] to the National Assembly:

a) presentation of a statement of anticipated revenue for the forthcoming financial year together with a statement of the anticipated budgetary appropriations shall be submitted to the Cabinet for approval;

b) after Cabinet approval, the Secretary to the Treasury shall proceed to print draft budget documents; and

c) finally, the draft budget shall be submitted to the National Assembly for discussion.

6.6.4 Approval of Appropriation Bill [section 26 of the PFM Act]

Once the Estimates of Voted Expenditure on Revenue Account have been approved by the National Assembly, parliamentary authority for the provision of the necessary funds is given by means of an Appropriation Act which appropriates the sums required for each Vote. Similarly, once the Development Account Estimates have been approved by the Assembly, an Appropriation (Development Fund) Act is passed to give parliamentary authority for the provision from the Development Fund, of the total amount required in the financial year to meet all expenditure not previously appropriated.

Once the parliamentary authority detailed above has been obtained, the Minister of Finance, by means of a General Warrant, authorizes the withdrawal from the Consolidated and Development funds of the sums required to meet all approved and appropriated expenditure. However, should the Appropriation Act not come into operation by the beginning of the financial year, for example because the Budget Meeting has been held after the start of the new financial year, the Minister of Finance may, subject to section 178 of the Constitution, issue a provisional General Warrant authorizing the withdrawal of the funds required to meet expenditure necessary to carry on the services of Government until the Appropriation Act is in force. Once the Act is in force, the Provisional General Warrant is replaced by a General Warrant. Controlling Officers are informed, by means of a Treasury Circular Minute which empowers them to incur expenditure, from the effective date of the Warrant.

If the Estimates have not been approved by the start of a financial year, and a provisional General Warrant has been issued, printed proof copies of the Estimates will be distributed to Controlling Officers under cover of a Treasury Circular Instruction. This Circular Instruction shall inform Controlling Officers of the percentage limit of expenditure which may be incurred against the provisions in the printed proof Estimates and of any other limitations on expenditure.

It should be noted that the authority to spend on Revenue Account given by a General Warrant ceases absolutely on the last day of the financial year to which it relates. Further, should circumstances warrant it, the Minister of Finance may at any time in the year limit or suspend any expenditure previously authorised.

6.7 Budgeting Process

6.7.1 Responsibilities of the Budgeting Process

a) The Ministry of Finance has overall responsibility for the budget process. The Ministry of Finance shall issue the budget circulars and may issue supplementary circulars.

b) The Department of Economic Planning and Development issues supporting circulars for appraisal of projects for inclusion in the Public Sector Investment Programme and after appraisal, the approved projects following the PSIP Criteria are included in the Development Projects.

6.7.2 Overall budget process obligations [section 21 of the PFM Act]

The Ministry of Finance shall be responsible for managing the process of preparation of each annual budget and related documents.
Controlling officers shall be required to:

a) meet their budget related obligations under the PFM Act, and as detailed in these instructions, and in related budget circulars; and
b) required to complete documents, submissions, and provide supporting data, in the most accurate way possible, and within the timetable agreed.

6.8 Budget timetable

The Ministry of Finance shall communicate the budget timetable for each financial year, after obtaining approval from the Minister of Finance and Cabinet.

The following timetable is a guide for the preparation of budget estimates with dates expected to be set for each financial year:

Item	Date	Description
1.	November	Ministries to be advised of budget priorities through budget instructions issued by the Ministry of Finance Public Sector Investment Programme (PSIP) Ministerial meetings

Item	Date	Description
2.	December	Changes in revenue and expenditure forecasts for the current year due from Ministries and agencies for inclusion in the Economic and Fiscal Update. Budget returns due from Ministries. PSIP Ministerial meetings. Budget reviews to start.
3.	December to January	Budget reviews to be completed. Adjustments to be made to budgets from review.
4.	January-February	Secretary to the Treasury to consult stakeholders on the Budget Policy Statement Half Year Economic and Fiscal Update for the current year. Statement of Economic and Financial policy to be prepared by Ministry of Finance on behalf of Minister of Finance. First draft PSIP produced. Second draft PSIP submitted to Cabinet.
5.	March	Secretary to the Treasury to present Budget Policy Statement to Cabinet. Draft budget to be forwarded to the Minister of Finance for review. Estimates to be forwarded to the Cabinet for review. Final draft PSIP Final draft submitted to President for approval. Budget circular No. 2 prepared with approved allocations for the development budget.
Item	**Date**	**Description**
6.	April	Amendments from Cabinet review to be discussed with Ministries and agencies, and adjustments made.
7.	May	Budget books to be printed and forwarded to National Assembly for circulation to the Members of Parliament.
8.	May-June	Ministries and agencies to provide monthly cash-flow forecasts of their revenue and expenditure

		requirements. PSIP allocations included in the Budget.
9.	June	Session of Parliament to debate the Appropriation Bill to begin. Approval of budget and General Warrant issued.
10	July	Budget implementation by Ministries and departments. Review of implementation of previous PSIP. Distribution of Budget circular no.1.
11.	Up to 31st August	Implementing line Ministries and agencies determine their sector priorities and select project proposals for submission to Ministry of Economic Planning and Development. Ministry of Economic Planning and Development circulates time-table for PSIP ministerial meetings.
12.	September-October	Ministry of Economic Planning and Development appraises projects and inputted into PSIP database.

6.9 Budget Circular

The Ministry of Finance shall issue a budget circular outlining instructions for the budget process for the coming financial year, and may issue other supplementary circulars. The budget circular shall be released by November each year.

a) A budget circular is a set of Instructions from Treasury that outlines procedures for preparation of budgets for a particular financial year.

b) Six months before a new financial year, Treasury shall issue a budget circular to all Ministries and Departments.

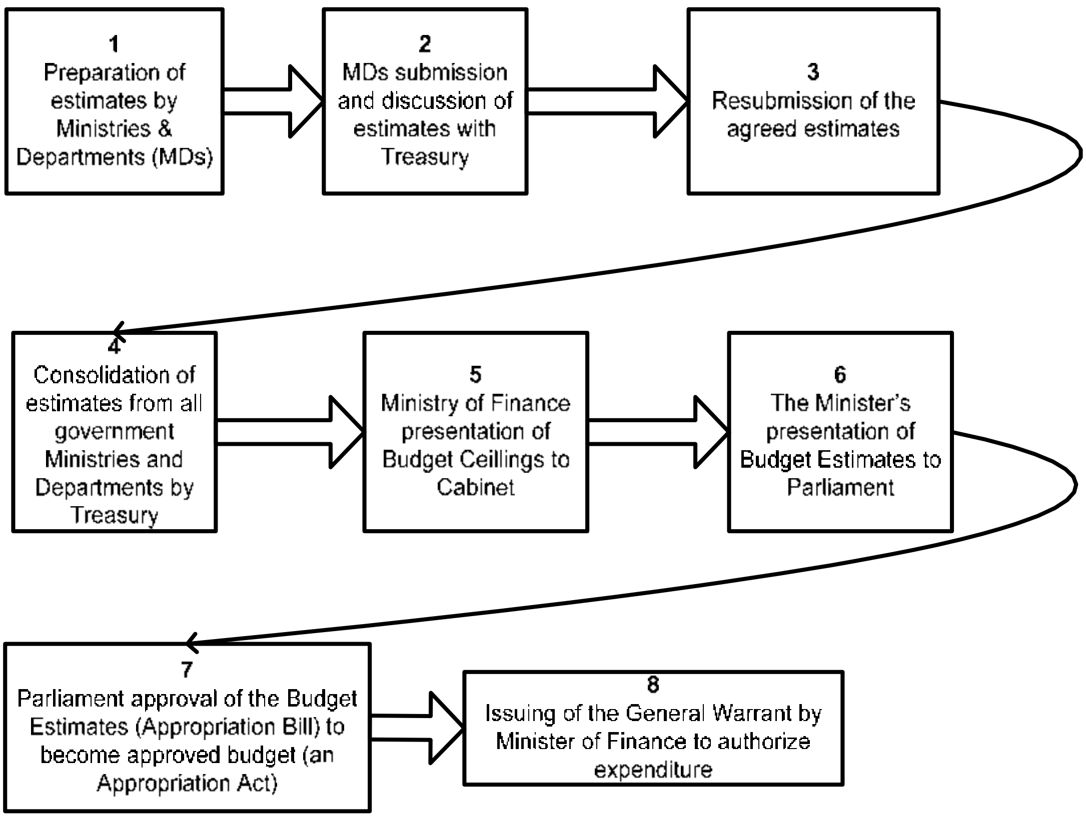
c) The budget circular shall set out the deadlines by which budget submissions shall be completed and detail the specific information required.

d) The budget circular, among other things shall contain a budget ceiling for each Ministry/Department.

e) The parent Ministry/Department shall then issue circulars to their departments advising them of their ceilings in turn.

f) Departments shall submit their respective budgets to the parent Ministry/Department's budget section for consolidation. The budget circular is applicable to all types of Receipts and Expenditure.

6.9 Presentation of Budget



6.10 Preparation of Estimates

6.10.1 Reference Policy Documents.

The National Economic Strategy
The budget shall be based on the National Economic Strategy. Currently the government is using Malawi Growth and Development Strategy (MGDS) II (2011- 2016) which identifies specific strategies and focus on actions that shall be pursued and implemented in the medium term in order to attain the aspiration of the nation.

The MGDS's overall goal is to achieve sustainable economic growth and wealth creation in order to bring about the well-being for all Malawians. The strategies have further been subdivided to achieve:

i. Sustainable Economic Growth;
ii. Social Protection;
iii. Social Development;
iv. Infrastructure Development; and
v. Good Governance.

6.10.2 Medium Term Expenditure Framework (MTEF)

MTEF is a budgeting approach in government where estimates are prepared on a three-year rolling basis.

The MTEF is designed to promote strategic medium term budgeting, policy-making, planning and budgeting roles of the Government into a rolling three year horizon.

The MTEF is an output-focused approach based on costing of priority activities, developed from a long term strategic planning (e.g. MGDS) and projections of available resource covering both recurrent and investment expenditures. The budget shall emphasize on phasing of activities and introduction of activities, based on changing priorities and focus.

6.10.3 Budgeting Process under MTEF

The following steps shall be followed in the budget formulation:-

a) Review, define objectives and policies;
b) Identify programmes /activities to achieve objectives;
c) Prioritise activities and rank them;
d) Identify activities which can be scaled down or stopped altogether;
e) Costing of the programmes/activities based on the available price list from Central Government Stores; and
f) Allocate amounts to priorities.

The Medium Term Expenditure Framework (MTEF) guiding principles include:-

a. budget integration;
b. an iterative three-year work plan and budget;
c. a detailed implementation annual work plan and budget;
d. the use of development strategies of Government e.g. MPRS in work planning and budgeting;
e. emphasis is on an Output based approach;
f. institutional structure and capacity levels;
g. issues of mainstreaming gender and HIV/AIDS; and
h. activity estimates comprise the recurrent and development accounts.

6.11 *Part 1 Submission of Estimates*

6.11.1 Preparation of Estimates [section 21 of the PFM Act]

The Estimates are the means whereby the Government makes known its financial requirements to the National Assembly through the Minister of Finance at the Budget Meeting, which is usually held just before the start of the financial year to which the Estimates relate. The Estimates comprise the estimates of Revenue and Expenditure on Revenue and Development Accounts.

The Estimates of revenue on Revenue Account details all receipts [with the exception of Appropriation-in-Aid] and revenue raised for development purposes. The former are included with the Estimates of expenditure on Revenue Account, and the latter in the Estimates of Development Fund Resources. The estimates of expenditure on Revenue Account distinguishes between expenditure which has already been appropriated and charged on the Consolidated Fund by the Constitution or any other written law (Statutory Expenditure) and expenditure for which appropriations of funds are being sought (Voted Expenditure).

Parliamentary approval to incur statutory expenditure and the appropriation of the necessary funds is given at the time the relevant Appropriation Act is passed and no further parliamentary authority is required. Statutory expenditure is still included in the Estimates, however, so as to provide the National Assembly with a comprehensive analysis of the Government's financial requirements.

6.12 Presentation Format

Controlling Officers are responsible for submitting Budget Estimates to the Treasury. The Budget Estimates shall be in two parts:

i. **An Output Based Budget:** This first part of the budget shall include a summary of programmes, outputs and activities with both targeted outputs and cost estimates.

ii. **Detailed Estimate:** The second part shall comprise submission of detailed estimates up to item level. Line items based estimates shall equal Output Based Budget estimates.

6.13 Output Based Budget

The Output Based Budget shall be presented in a Treasury prescribed format which articulates the Treasury Memorandum, with written statements covering the following:

a) The mission statement of the Ministry/Department.
b) Summary of strategic plans including objectives and expected outputs of the Ministry/Department.
c) Institutional structure.
d) A summary of recent achievements and current challenges facing the Ministry/Department.
e) A brief explanation of budgetary performance of the Ministry/Department for the planning period.
f) A brief explanation and justification of estimates, including an explanation of how crosscutting issues have been incorporated.

Part 2: Detailed Estimates

These estimates shall be presented by cost centre up to item level. When significant changes to the initial budget estimates arise, the Controlling Officer shall rework the budget estimates and resubmit to Treasury for consolidation.

The Controlling Officer of each Ministry:

a) is responsible for providing information to the Ministry of Finance in the format specified and incorporating all of the required information into the budget submission;
b) must provide an indication of all of the services and products being provided by their Ministry, consistent with stated Government priorities when developing output budgets; and
c) shall apply the terms set out in the table below when developing their output budgets.

Controlling Officers shall ensure that they apply the terms presented in the Table below when developing Output Budgets;

Item	Term	Description
1.	Outcome	The impact on the community from the output provided by the Ministry/agency.
2.	Output	The goods and services provided by a Ministry/agency to the public.
3.	Input	The resources used to produce the output, goods or service.
4.	Activity	The immediate projects or actions planned to achieve the program objectives or goals.
5.	Performance measure	Indicators to show the planned: quantity, quality, timeliness, and other similar standards to be achieved in delivering outputs.

6.13 Execution of Budget

6.13.1 Authorisation of Expenditure

a) The Minister of Finance shall present the budget estimates to Parliament for approval.

b) Before any money can be withdrawn from the consolidated fund, there shall be:

   i. The **Legislative authority** which is given when the National Assembly approves the budget estimates, by passing the Annual Appropriation Bill on Revenue and Development Accounts.

   ii. The **Executive authority** for incurring expenditure which is issued when the Minister of Finance signs the General Warrant authorizing Controlling Officers to incur expenditure in accordance with the approved estimates. Thereafter, the respective Controlling Officers shall be responsible for authorizing, controlling and accounting for expenditure against the budget provision.

c) In the event that the appropriation bill is not passed in time, the Minister of Finance shall subject to Section 178 of the Constitution, issue a Provisional General Warrant authorising the withdrawal of funds required to meet expenditure necessary to carry on the services of government until the appropriation act is in force. The Provisional Warrant shall be replaced by a General warrant when the act is approved.

d) The amounts to be drawn by Ministries shall be determined by agreement with the Ministry of Finance, and upon the availability of funding.

6.13.2 Control Objectives of Expenditure

Control over expenditure shall be exercised with three objectives:-

a) To ensure that expenditure conforms to the purpose and financial limits as set out in the approved estimates.

b) To ensure that expenditure is incurred with due regard to economy and efficiency.

c) To enable action to be taken in time to correct any adverse trends revealed during the year.

6.13.3 General Provisions of Expenditure Regulations in relation to Budget Virements.

The important provisions relating to expenditure control in relation to budget virements are summarised below:-

a) Public funds shall only be spent for the purpose and up to the limits established in the budget estimates.

b) The purpose for which the expenditure shall be incurred is determined by the scope of Head/Vote concerned in the approved budget estimates on Revenue and Development account.

c) It shall be ensured that expenditure incurred is within the scope of the relevant item and is correctly classified.

d) The approved budget provision on any item shall not be exceeded unless the Treasury in terms of Treasury Instruction has provided additional funds through issue of a Virement Warrant.

e) Funds shall be vired from one item to another by the Treasury provided the total provision for the Vote/Head as approved by the National Assembly is not exceeded.

f) Controlling officers shall apply for virement of funds as soon as it is known that expenditure in the item is likely to exceed the approved provision. Requests for virement shall indicate items where savings are expected.

g) The authority for expenditure on the Revenue Accounts lapses at the end of the financial year. Any unspent balance of provision cannot be utilized in the next year.

h) Unspent provision in the Development Estimates in respect of the projects financed from external resources shall be carried forward to the next financial year with the authority of the Treasury. Unspent provision in respect of expenditure met from local resources shall not be carried forward from one year to the next.

i) Controlling Officers and their cost centres shall keep commitment registers to record all commitments and expenditure as soon as these are incurred. Vote books shall be promptly reconciled with monthly tabulations received from the Accountant General and discrepancies corrected.

j) Controlling officers are required to monitor monthly expenditure and commitments against budget provision.

6.13.4 Budget Execution and Management

6.14 Revenue

Every Controlling Officer shall submit to the Secretary to the Treasury monthly revenue projections before the commencement of the financial year. The projections shall be revised in the course of the financial year following the consultation between the Controlling Officer and the Secretary to the Treasury.

If, during the course of the financial year, it becomes apparent that a new source of revenue has become available the Receiver of Revenue shall apply to the Treasury for the creation of a new Item with a full explanation in support of his request, including an estimate of the receipts likely to be collected financial year. If the application be approved, a new revenue Item shall be created by Treasury Authority, which shall designate the officer concerned as the Receiver of Revenue of the new Item. Treasury Authorities take the form of a numbered and stamped endorsement.

6.15 Public Expenditure Management

Every Controlling Officer shall submit to the Secretary to the Treasury a monthly cash flow which shall form the basis for funding. The cash flow shall be revised during the course of the year in the light of developments during budget execution.

Unless otherwise indicated in the notes in the approved estimates, every Controlling Officer shall ensure that expenditure is in accordance with budgetary provisions, and that there are no over-expenditure.

If a demand arise during the financial year, for a new type of expenditure, which although not included in the description in the Estimates, can be charged to an existing programme, the Controlling Officer shall seek Treasury Authority to incur that expenditure; and every such expenditure should be made within the approved budget and shall not be treated as extra budgetary expenditure.

6. 16 Virement or Transfer between Outputs [section 25 of the PFM Act]

Specific approval is required before any allocations can be vired or transferred between outputs. The PFM Act authorizes the Secretary to Treasury, with the approval of the Minister at the request of a Controlling Officer, to direct the virement or transfer of funds between the provisions assigned to programmes/ item under a Head/Vote of expenditure, or to create a new programme/item if the amount appropriated under the Head/Vote is not exceeded. If the Controlling Officer is satisfied that the provision against a Programme/item will be inadequate, he may submit an application to the Secretary to the Treasury to vire or transfer funds between a programme/item within the same Vote. The application should be in writing and should be signed personally by the Controlling Officer.

The application shall include:

a. a full explanation of the excess of expenditure under the programme/item in question and the reason why expenditure cannot be contained within the limits of the original provisions; if the excess expenditure relates to salaries and wages programme, it shall be clearly stated whether or not the excess results from the filling of posts approved at the beginning of the current financial year, or of posts created within the current year;

b. Information on whether the excess expenditure is of a temporary nature or will translate into a commitment to increase the approved level of provision for a subsequent financial year;

c. The reason why savings are available under the programme from which it is proposed to meet the excess; and

d. Confirmation that the savings quoted is in fact genuine, for example not

It should be noted that savings arising under expenditure of provisions under programme which are reimbursable in whole or in part will not be acceptable for virement purposes, unless they shall be used for other reimbursable expenditure of a similar nature.

If the Secretary to the Treasury is satisfied with the application for virement, he shall issue a numbered Virement Warrant.

There may be certain cases where, even when savings are available under the same Vote, an application to the Secretary to the Treasury for virement may not be approved without the National Assembly being informed, for example:-

a. where the provision under a programme is required to be so greatly increased as to constitute a substantial expansion or alteration in the scope of the service in question; or
b. Where creation a new programme is involved.

Where a provision is required for new services necessitating the creation of a new programme/item; the total provision for the programme must be increased by virement from another item. In this regard the letter of application seeking virement or transfer shall include:

a. the title and number of the new "Item" in addition to the programme;
b. a description of the new service and an explanation as to why it cannot be deferred until the next financial year; and
c. the estimated cost of the new service during the current financial year.

Approval of the creation of the new programme/item shall be conveyed by Virement Warrant, the name and the number of the programme/item being inserted in the increase column.

As the National Assembly appropriates separately for each Vote on Revenue and Development Account, the Secretary to the Treasury shall not authorize an increase of the total provision in a Vote even if offsetting savings are available from another Vote.

If the Treasury is satisfied that a supplementary provision is justified; it shall be included in the Supplementary Estimates for consideration at the next convenient meeting of the National Assembly. If the Assembly approves the supplementary provision, the Minister of Finance, by means of a Special Warrant authorizes the issue of the necessary additional funds, including any additional statutory expenditure provisions which may have been included in the Supplementary Estimates for the National Assembly's information. As is the case following the issue of a General Warrant, the Treasury shall then inform Controlling Officers by a Treasury Circular Minute that they are empowered to incur the additional expenditure, subject to any directions contained in the Supplementary Estimates. Any offsetting savings from other Votes are also included in the Supplementary Estimates and these are then requisitioned or reserved by the National Assembly.

6.7 Contingency Fund [section 24 of the PFM Act]

In accordance with the provisions of section 179 of the Constitution and section 24 of, the PFM Act, a Contingencies Fund has been established from which the Minister of Finance may transfer funds from the Contingency Fund after seeking Cabinet approval, if he is satisfied that an exceptional and unforeseen need for expenditure has arisen from which no other provision exists.

6.8 Development Fund [section 29 of the PFM Act]

Estimates of Development Fund [Resources] for the current year are detailed in the annual printed Estimates. For accounting purposes, each resource is credited to an appropriate Resources Head and Item. The amounts shown in the Estimates against each Resource item correspond to the expenditure as estimated to be spent against that Resource in the given financial year. The creation of new Resources items, or amendments to existing Resources items, during financial year, are authorised by Treasury Authority.

When funds are made available to the Government in advance of expenditure being incurred, the funds are credited to the appropriate Project Account. As expenditure is being incurred an appropriate expenditure item shall be debited and an appropriate resource item credited.

The maximum amount that may be spent on a project during its life shall be its Total Estimated Cost (TEC). However, TEC can be revised if there are events following an adjustment.

Where, during the course of a financial year, it has become necessary that expenditure should be incurred for which no provision was made in the Development Estimates as approved by National Assembly, or that Total Estimated Cost should be revised, the Ministry of Finance may direct that:-

a. an additional item be created to provide for such purposes; or
b. that the T.E.C. be varied accordingly.

Provided that the Total Estimated Costs of all projects provided for in the Development estimates as approved by the National Assembly shall not be increased by an amount exceeding that specified or this purpose in the Act without the approval of the National Assembly in the form of a Supplementary Estimate.

Virements or transfer between outputs on Development Account apply only to re-allocation of funds between programme/items within the same Vote, and every Controlling Officer must obtain prior approval from the Secretary to the Treasury for a virement or transfer between outputs in accordance with paragraph 4.13 of these Treasury Instructions.

6.9 Budget Revision

If, during the course of the year, it becomes apparent that the approved provision for a Vote/Head is likely to be exceeded, the Controlling Officer shall immediately apply to the Treasury for supplementary provision. Treasury may, if convinced of the need for supplementary funding, request an additional provision at the time of submitting revised estimates for approval to the National Assembly.

6.10 Budget reports to be published

Budget reports shall be published by the Ministry of Finance as articulated in the table below:-

Item	Date	Reports
1.	3 months before beginning of financial year	Statement of Economic and Fiscal Policy.
2.	Before start of fiscal year	Budget Policy Package which includes:- (a) Budget Policy Statement; and (b) Fiscal Strategy Report.
3.	Accompanying the Budget	Budget package which include - (a) estimates of revenue, grants and expenditure; (b) Appropriation Bill; (c) Economic and fiscal update. (d) Current year fiscal update;
4.	After 6 months	Half year economic and fiscal update

The reports referred to in the table are public documents and shall be available for inspection by the public at the offices of the Ministry of Finance. The Minister of Finance shall arrange for a summary of each report to be published, together with a notice in the Gazette and local newspapers. The notice shall state that the report has been published and will also stipulate the place where it can be inspected for free.

The Ministry of Finance shall decide the actual dates for these reports to be finalised and published in line with the requirements of the PFM Act, and shall publish all of these reports before the due dates required by the PFM Act.

Each report referred to in the table shall be accompanied by a statement of responsibility signed by the Minister of Finance that certifies –

a) the integrity of the disclosures; and
b) the consistency with the requirements of the PFM Act.

Provided that if the reports are published as a package, one statement of responsibility may cover the entire package of reports published.

6.11 Budgeting Methods

The following are the different methods of budgeting that Malawi has used from budgetary institutions in accordance with the Budget Manual 2009.

6.11.1 Incremental Budgeting

Incremental Budgeting is defined as the process of adjusting the budget by a certain arithmetic factor regardless of the outcomes. Typically, this is an increase of a specified percentage based on specific policies or criteria.

Advantages of Incremental Budgeting

a) The budget is stable and change is gradual;
b) Managers can operate their departments on a consistent basis;
c) The system is relatively simple to operate and easy to understand;
d) Conflicts are avoided because departments are treated similarly;
e) Analysis of budgets is easier;
f) Easily justified; and
g) Encourage continuity of programs.

Disadvantages of Incremental Budgeting

a) No accounting for variations in costs between programs;
b) No accountability for results. Assumes activities and methods of working will continue in the same way;
c) No incentive for developing new ideas;
d) No incentive to reduce costs;
e) Encourages spending up to the budget so that the budget is maintained next year. Budget may become out of date and no longer relate to the level of activity or type of work being carried out;
f) It ignores linkage with policy; and
g) Budgetary slack may be built into the budget.

6.11.2 Zero Based Budgeting (ZBB)

Zero Based Budgeting is an approach that starts from the premise that no costs or activities should be factored into the plans for the coming budget period.

ZBB requires that the existence of a government program or programs be justified in each fiscal year, as opposed to simply basing budgeting decisions on a previous years funding level.

Advantages of Zero Based Budgeting.

a) Efficient allocation of resources, as it is based on needs and benefits;
b) Drives managers to find cost effective ways to improve operations;
c) Detects inflated budgets;
d) Useful for service departments where the output is difficult to identify;
e) Increases staff motivation by providing greater initiative and responsibility in decision - making;
f) Increases communication and coordination;
g) Identifies and eliminates wasteful and obsolete operations;
h) Identifies opportunities for outsourcing; and

i) Encourages cost centres to identify their mission and their relationship to overall goals.

Disadvantages of Zero Based Budgeting

a) Difficult to define decision units and decision packages;
b) It is time consuming and exhaustive;
c) Forced to justify every detail related to expenditure; and
d) It requires training of managers which is costly.

6.11.3 Performance Based Budgeting (PBB)

Performance Based Budgeting is commonly referred to as program, output, activity or results based.

Advantages of Performance Based Budgeting

a) A budget focuses on the results of each program;
b) Goals, objectives, and performance indicators are clearly defined;
c) Requires accountability for services rendered and for results that can be documented; and
d) Defines for decision makers and the public what a spending unit does, what it plans to accomplish and how it performs.

Disadvantages of Performance Based Budgeting

It is cumbersome because it requires various levels and types of information to be measured and reported.

6.12 Basis of Budgeting

Budgets may be prepared on cash or accrual basis. Currently, Malawi is using a cash budgeting system.

6.12.1 Accrual based budgeting

Under Accrual Based Budgeting methodology, transactions are recognised as the underlying economic events occur, regardless of the timing of related cash receipts and payments. Under this methodology, revenues are recognised when the income is earned, and expenses are recognised when liabilities are incurred or resources consumed. Accrual accounting provides a broader measure of the burden of government financial commitments.

Advantages of Accrual Based Budgeting

a) It is a more comprehensive method of budgeting because all resource flows are recorded, including internal transactions, in kind transactions and economic flows; and

b) It provides better financial information and thus improved decision making.

Disadvantages of Accrual Based Budgeting

It is complicated.

6.12.2 Cash Based Budgeting

Cash basis of accounting is recognised when cash is received or paid. The cash based budget system is based on the principle that no cash is released to line ministries and for other budget heads unless sufficient funds are available in the Treasury's main bank accounts to cover payments.

Advantages of Cash based budgeting

a) Easy to compute and understand, based on actual flows;
b) Necessary for efficient cash and debt management;
c) Facilitates legislative (and political) control of the budget;
d) Discourages extra budgetary requests; and
e) Easy to monitor monthly expenditures against revenues.

Disadvantages of Cash Based Budgeting

a) Short-term perspective; and
b) Budgeting priorities are not observed.

6.13 IPSAS 24: Presentation of Budget Information in Financial Statements

6.14 Objective

IPSAS 24 requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities which are required to, or elect to, make publicly available their approved budget(s) and for which they are, therefore, held publicly accountable. The standard also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts. Compliance with the requirements of IPSAS 24 will ensure that public sector entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating compliance with the approved budgets for which they are held publicly accountable and where the budget(s) and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results.

6.15 Scope

IPSAS 24 applies to public sector entities that are required or elect to make publicly available their approved budget(s).

6.16 Presentation of a Comparison of Budget and Actual amounts

In accordance with IPSAS 24.14, an entity must present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement (referred to as a statement of comparison of budget and actual amounts) or as additional budget columns in the financial statements currently presented in accordance with IPSAS.

The comparison of budget and actual amounts must be present separately for each level of legislative oversight:

a) The original amount and final budget amounts;
b) The actual amounts on a comparable basis; and
c) By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements and across reference to those documents is made in the notes.

In general, IPSAS 24 provides that all comparisons of budget and actual amounts must be presented on a comparable basis to the budget. According to IPSAS 24, an entity must present a comparison of budget and actual amounts as additional budget columns in the primary financial statements only where the financial statements and the budget are prepared on a comparable basis.

6.17 Disclosure Requirements

An entity must present an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget or other factors. This can be disclosed in the notes to the financial statements or in a report issued before or at the same time as, or in conjunction with the financial statements. It must include a cross reference to the report in the notes to the financial statements.

6.18 Reconciliation

Where the financial statements and budget are not prepared on a comparable basis, the actual amounts presented on a comparable basis to the budget must be reconciled to the amounts presented in the financial statements. Differences must be explained. Reconciliation must be made for the following items:

a) If the accrual basis is adopted for the budget, total revenues, total expenses and net cash flows from operating activities, investing activities and financing activities; or

b) If a basis other than the accrual basis is adopted for the budget, net cash flows from operating activities, investing activities, and financing activities.

Differences can arise from the accounting basis, timing differences between the budget and the financial statements and entity differences in the consolidated group. The reconciliation must be presented either in the comparison of budget and actual amounts or in the notes to the financial statements.

6.19 End of Chapter Summary

In this chapter, you have looked at the budgeting processes in the public sector, including, the provisions of budgeting as stated in the Public Finance Management Act (2003) as it is the starting point in the Public Finance Management Cycle . You also looked at the management of the budget and reallocations between the budgets, including, the limitations of budgeting.

Sample Questions

1. Provide an analysis of the budget process in Malawi including the identification of weaknesses and strengths in the process.

2. Could you please explain the role of the legislature and the executive in the budgeting process?

3. What are the budget provisions in Public Finance Management Act and how do they ensure that the budgeting process is transparent and accountable to the citizens of Malawi?

4. Evaluate the cash and accrual based budgeting?

Chapter 7

CATEGORIES OF BUDGETS IN THE PUBLIC SECTOR

7.1 Introduction

Desk Instructions item 2.3.1 regards approved budgets, revised budgets and supplementary budgets as the broad categories of budgets. On the other hand, budgets are also classified according to the type of expenditure, giving rise to Expenditure budgets. According to Desk Instructions 2.3.2, statutory budgets, development budgets and recurrent budgets are expenditure budgets

7.2 Learning Objectives

By the end of this chapter, students should be able to:

a) Describe the categories of budget;
b) Explain the Medium Term Expenditure Framework;
c) Discuss the relationship between Government policy and annual budget;
d) Present budget information in accordance with IPSAS 24 Presentation of Budget Information in Financial Statements and the Cash Basis IPSAS;
e) State the long term developments plans of Malawi in relation to the budgeting process; and
f) Briefly explain the following strategic documents:

    i. Vision 2020;
    ii. Malawi Poverty Reduction Strategies Paper –PRSP;
    iii. Malawi Growth & Development Strategy – 2006;
    iv. Malawi Rural Energy and Institutional;
    v. Malawi HIV Prevention Strategy 2009-2013; and
    vi. Climate Change Strategy.

7.3 Categories of Budget

There are several ways of categorising budgets. These include:

i. Approved budgets;
ii. Revised budgets;
iii. Supplementary budgets;
iv. Statutory budgets;
v. Recurrent;
vi. Development (Capital)budgets;
vii. Output based budget;
viii. Activity based budget; and
ix. Programme based budgets.

7.4 Broad Categories

7.4.1 Approved Budget

This is budget that has been passed/ approved by Parliament at beginning of the financial year.

7.4.2 Revised Budget

This is a budget that measures the budget performance for the first half of the financial year and accommodates adjustments for the remaining half of the financial year.

7.4.3 Supplementary Budget

This is an approved budget for the additional funds provided by Parliament over and above those amounts provided for in the original estimates.

7.5 Components of a Budget

7.5.1 Revenue Budgets

Revenue represents all resources that allow the government to carry out its activities. These include domestic revenues in the form of tax and non tax revenues, levies, and grants in form of budget support projects and other dedicated grants.

7.5.2 Expenditure Budgets

Besides the broad budget categories outlined above, budgets are also classified according to the type of expenditure as follows:

7.5.2.1 Recurrent Budget

Consists of personal emoluments which are payment of salaries and other benefits to government employees and recurrent transactions which are expenses related to daily running of government business.

7.5.2.2 Development Budget:

This is expenditure related to capital investment. A type of budget where expenditure is financed either by Government or Donor/Development partner project resources from external aid in the form of loans and grants.

a) **Voted Expenditure Budget**: Voted Expenditure is expenditure, which has been approved by Parliament and is subject to annual vote of the National Assembly.

b) **Statutory Expenditure Budget**: A budget that covers expenditure required by statute and is not subject to vote by parliament but is presented to parliament for noting. Statutory Expenditure is expenditure charged on the Consolidated Fund in terms of Section 76 of the Constitution of Malawi. It is not subject to annual vote of the National Assembly.

7.6 Medium Term Expenditure Framework (MTEF)

Treasury instruction No. 4.6.1 provides for preparation of estimates using the Medium Term Expenditure Framework (MTEF).

MTEF is a budgeting approach in government where estimates are prepared on a three year rolling basis. The MTEF is designed to promote strategic medium term budgeting and brings together planning and budgeting roles of the Government into a three year rolling horizon.

The MTEF is and an output –focused approach based on costing of priority activities, developed from a long term strategic planning (e.g. MGDs) and projections of available resource covering both recurrent and investment expenditures. The budget shall emphasize on phasing of activities and introduction of activities, based on changing priorities and focus.

7.4.1 Relationship between Government Policy and Annual Budget

The Annual Budget is derived from the Government Policy by defining and preparing output based budgets which are linked to the Government Policy and the national strategy.

7.5 Presentation of Budget Information

7.5.1 Cash IPSAS

The purpose of this Cash International Public Sector Accounting Standard (IPSAS) is to prescribe the manner in which general purpose financial statements should be presented under the cash basis of accounting. Information about the cash receipts, cash payments and cash balances of an entity is necessary for accountability purposes and provides input useful for assessments of the ability of the entity to generate adequate cash in the future and the likely sources and uses of cash. In making and evaluating decisions about the allocation of cash resources and the sustainability of the entity's activities, users require an understanding of the timing and certainty of cash receipts and cash payments.

Compliance with the requirements and encouragements of this Standard will enhance comprehensive and transparent financial reporting of the cash receipts, cash payments and cash balances of the entity. It will also enhance comparability with the entity's own financial statements of previous periods and with the financial statements of other entities which adopt the cash basis of accounting.

The Cash IPSAS applies to all public sector entities other than government business enterprises (GBEs).

GBEs are profit oriented entities and are required to comply with International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs).

7.5.2 Structure of the Standard

The standard has two parts:

a) Part One - this part deals with the requirements which are mandatory; and
b) Part Two - deals with the requirements which are not mandatory

7.5.2.1 Part One – Compulsory

This part outlines the mandatory requirements which must be applied when preparing general purpose financial statements under the cash basis of accounting. The following components must be included in the financial statements prepared under the Cash IPSAS:

a) A statement of cash receipts and payments
b) Accounting policies and explanatory notes; and

c) A statement of comparison of budget and actual amount, which can either be presented as a separate additional financial statement or as a budget column in the statement of cash receipts and payments;

Figure 1 below shows the components which must be included in the financial statements prepared under the Cash IPSAS

7.5.2.2 Statement of Comparison of Budget and Actual amounts

As the government makes publicly available its approved budgets, it is required to present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the statement of cash receipts and payments currently presented in accordance with this Standard.

The standard requires that the comparison can only be presented as additional budget columns in the statement of cash receipts and payments where the financial statements and the budget are prepared on a comparable basis.

The comparison of budget and actual amounts should be presented separately for each level of legislative oversight:

a) The original and final budget amounts;
b) The actual amounts on a comparable basis; and
c) By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

If changes have been made to the original budget, the government is required to present an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors, and this is to be done either:

a) By way of note disclosure in the financial statements; or
b) In a report issued before, at the same time as, or in conjunction with the financial statements, and shall include a cross reference to the report in the notes to the financial statements.

The standard also requires that the actual amounts shall be presented on a comparable basis to the budget, but where the financial statements and the budget are not prepared on a comparable basis, total cash receipts and total cash payments shall be reconciled, identifying separately any basis, timing and entity differences. The reconciliation shall be disclosed on the face of the statement of comparison of budget and actual amounts or in the notes to the financial statements.

7.5.2.3 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT
For Government X for the Year Ended 31 December 200X
Budget Approved on the Cash Basis
(Classification of Payments by Functions)

(in thousands of currency units)	*Actual Amounts	Final Budget	Original Budget	**Difference: Final Budget and Actual
CASH INFLOWS				
Taxation	X	X	X	X
Aid agreements International agencies	X	X	X	X
Other grants and aid	X	X	X	X
Proceeds: borrowing	X	X	X	X
Proceeds: disposal of plant and equipment	X	X	X	X
Trading activities	X	X	X	X
Other receipts	X	X	X	X
Total receipts	**X**	**X**	**X**	**X**
CASH OUTFLOWS				
Health	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)
Public order/safety	(X)	(X)	(X)	(X)
Social protection	(X)	(X)	(X)	(X)
Defense	(X)	(X)	(X)	(X)
Housing and community amenities	(X)	(X)	(X)	(X)
Recreational, cultural and religion	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)
Other	(X)	(X)	(X)	(X)
Total payments	**(X)**	**(X)**	**(X)**	**(X)**
NET CASH FLOWS	**X**	**X**	**X**	**X**

IPSAS 24 *Presentation of budget information in Financial Statements*
It applies to Public Sector other than Government Business Enterprises. An entity shall present a comparison of a budget and actual amounts as additional budget column. In the primary financial statements only where financial statements and budgets are prepared on are prepared on a comparable basis.

7.6 Long Term Development Plans

Since 1964, the Malawi Government has been concerned with addressing various development issues. There have been several approaches to development planning and were mixed. In pre democracy era the approach oriented towards state intervention but at the same time allowing for private enterprise to thrive. However, such private enterprise had heavy political underpinnings especially in the ownership of estates but also in how the Press Group crowded out other private initiatives. The private sector was also over-regulated as evidenced by government price controls and various administrative and legal controls. Emphasis was on the agriculture sector that is, farming enterprises and agro-based industries. The manufacturing sector was not actively promoted.

Development management was approached through medium term plans covering ten-year periods. The first Statement of Development Policies (DEVPOL), covered the period starting from 1971 to 1980. The second covered the period from 1987 to 1996. In addition, the Government has used the Public Sector Investment Programme (PSIP), a five-year rolling investment programme; Sectoral Policy Framework Papers (PFPs); and the Medium Term Expenditure Frameworks (MTEFs) as complementary development management tools.

The economy performed well in the 1960s and early 1980s registering average annual growth rates of 6%. However, the economy's growth eventually faltered because of external shocks - the oil crisis, drought, political instability in the region and technological developments in the western world which created substitutes to the country's primary implementing Structural Adjustment Programmes (SAPs) in which the Policy Framework Paper (PFP) - a three-year rolling policy programme - has been the key document for coordinating the implementation of medium-term economic policy objectives. In addition, there have been specific sectoral programmes on policy changes and investment covering periods of between three to five years.

After attaining democracy, Malawi felt an increasing concern that in spite of past economic growth rates which compared favourably with other sub-Saharan countries, progress on basic long-term development goals had been slow and somewhat disjointed. There has not been significant social and human development. This, together with the unpredictable nature of the global economy, has necessitated the use of long-term strategic thinking and management of the development agenda. The Vision framework provides one such long-term strategic approach to development management.

A long-term approach to development was seen as appropriate because most of the development problems, including policy prescriptions, take a long time to be implemented and to achieve their intended outcomes. The unpredictability of economies, finance, politics and many facets of human life have made strategic planning and management essential in corporate and development management.
The Long term Development plans are contained in the following documents:

i. Vision 2020;
ii. Malawi Poverty Reduction Strategies Paper –PRSP;

iii. Malawi Growth & Development Strategy – 2006;
iv. Malawi Rural Energy and Institutional;
v. Malawi HIV Prevention Strategy 2009-2013; and
vi. Climate Change Strategy.

7.6.1 Vision 2020

The Vision is based on a long-term multi-sectoral approach. This is so because it has been established that the hitherto economist approach to development has contributed to the failure to attain long-term development goals. Development is multi-faceted and multi sectoral and involves changes in the social, political, technological as well as economic realms. All these changes interweave and influence each other. The new Malawi Constitution has underscored the multidimensional nature of development by describing "development" as comprising social, cultural, political as well as economic change.

A Vision provides a framework in which a country, formulates, implements and evaluates short and medium-term plans of both the public and private sectors. It provides detailed background information and justification for the aspirations of the people of the country and the recommended strategies for achieving the aspirations. However, a Vision does not provide details of projects and activities that have to be implemented in order to realize the aspirations. Identification and implementation of these detailed projects and activities are the responsibilities of government departments and private organisations. A major and important difference between the Visioning process and past medium term planning efforts is that development relied on natural economic comparative advantage. But the Visioning process helps the country to create the economic competitive advantage that can lead to significant economic growth and consequently improved material well being of its people

7.6.2 The Conceptual Frame Work for developing a vision

The conceptual framework for developing the vision is adapted from the National Long-Term Perspective Studies (NLTPS) approach formulated by the African Futures Group in Abidjan. The NLTPS methodology is used as a tool for setting priorities for development and development management. It emphasizes the following conceptual elements: strategic long-term thinking, shared vision and visionary leadership, citizen participation, scenario planning, strategic management and national learning. These are briefly explained below.

7.6.2.1 Long-Term Strategic Thinking

The need for long-term planning has been underscored by various technocrats and scholars from very early times. It is generally agreed that a miscellaneous group of projects, each unrelated and uncoordinated to a master plan for the development of the economy as a whole, would take a country nowhere and may lead to chaos. In spite of this understanding, the concept of long-term strategic thinking has so far been missing from most development management efforts of countries such as Malawi. Development plans in Africa typically covered four to five year periods while Structural Adjustment Programs (SAPS) have even shorter time horizons.

However, the importance of longer-term perspectives to development has now been recognized especially in explaining the economic successes of countries such as Korea, Malaysia and others in Asia.

An important element of long-term strategic thinking is for Malawi to avoid relying solely on her "natural" comparative advantage. The country has to examine various factors strategically and then determine what and where her national competitive advantage will be.

7.6.2.2 Shared Vision and Visionary Leadership

Long term strategic thinking should incorporate a shared Vision of where the country needs to go and how to get there. In corporate strategic management, the importance of a shared Vision is recognized in motivating the members of the organization to achieve corporate goals. At the national level, a worthwhile achievable vision of the country's development priorities is one that is widely shared and becomes a force that motivates everyone towards greater achievements for the benefit of the country. The competitiveness of a nation is based on its ability to mobilize domestic resources in accordance with a shared Vision of the future and an appropriate and sustained strategy for achieving it.

Thus, the processes of formulating shared visions to guide a country's development efforts require, among other things, visionary leadership. This is leadership that is constantly forward-looking, creative and strategic in its thinking as well as actions. It also means that a way should be found to review the ever-increasing number of development issues and agree on those that represent genuine national aspirations and therefore, the country's development priorities.

7.6.2.3 Citizens' Participation

Experience has shown that lack of popular debate over national development policies and implementation imposes severe constraints on motivation for high productivity. Citizens should be encouraged to participate not only in forging a shared vision for the country but also in the implementation, monitoring and evaluation of the development process. The NLTPS process helps to create awareness of developmental issues and needs within government and the general public. It is intended to enlist the people's active input as well as sustained support and interest in the resultant Vision. The success of the Vision depends on the public's awareness of their responsibilities to achieve the Vision.

The role of technocrats is to enhance this participation and make the citizen aware of which aspirations are technically feasible given the permutations of public, private and community resources. This avoids creating a wish list of aspirations for which the citizens hope that the government is their benefactor.

It is important to have this kind of approach because resources will always be insufficient to meet all the people's wish lists. Thus, the people participate in the decision-making process and setting of priorities and should express their thoughts regarding the allocation of public resources. In this way, the technocrats will be certain that the plans they have finally made reflect the legitimate aspirations of the people. This increases the chances of success in the implementation of the final plans.

7.6.2.4 Scenarios Planning

Long-term strategic thinking requires long-term forecasting. However, in today's rapidly changing world, conventions forecasting methods are inadequate because they cannot help to anticipate major discontinuities or raptures not easily captured or predictable using these methods. The oil crisis of 1973-74 is a good example of an event with major cross-impacts but which could not be forecast using conventional methods. Similarly, innovations in biotechnology may lead to precipitous fall in the demand for some high value agricultural products of the developing countries and yet trend analysis or other conventional statistical analyses may not help very much in predicting these. Instead, the use of scenarios to forecast what is likely to happen in the futures has been found to be a more appropriate approach to futures analyses.

Scenario planning is a technique whose aim is to achieve interactive forecasting by using strategic intelligence from the economic, political, environmental, cultural and technological domains. Scenario planning may also take account of past trends, future bearing events, the role of main actors and critical uncertainties of the social system.

Scenarios are hypothetical stories of the future which are constructed for the purposes of focusing attention on causal processes and decision points. Since it is often argued that unexpected changes in the external environment were partly responsible for non-implementation of development plans in Africa, it is necessary to anticipate such problems by planning for alternative scenarios on the out-turn of the external factors. Scenarios ensure that plans avoid sub-optimal development paths by exposing negative events that might happen in the future and preparing in advance how to take care of these.

7.6.2.5 Strategic Management and National Learning

Steps should be taken to realize shared visions. This involves the process of strategic management. Strategic management involves the determination of the basic long-term goals and objectives of an enterprise, the adoption of appropriate courses of action to achieve the long-term goals and the allocation of resources necessary for accomplishing these goals. The concept of strategic management, treats planning and implementation, as complementary activities. In the course of implementing the activities, there is need to learn from mistakes and to steer the course in line with the vision.

Vision 2020 also sets out a path for the country's long-term development, providing a framework for the government to prepare medium-term development plans, such as the Poverty Reduction Strategy 2002-05 and the Growth and Development Strategy 2006-10, as well as national participatory machinery for monitoring progress against the long-term strategy

7.7.1 Malawi Poverty Reduction Strategies Paper –PRSP

7.7.1.1 Poverty Analysis and Profile

Poverty in Malawi is widespread, deep and severe. According to the 1998 Integrated

Household Survey1, 65.3 percent of the population was poor, or roughly 6.3 million people. Within this figure, about 28.7 percent of the population was living in extreme poverty. The level of inequality is well illustrated by the fact that the richest 20 percent of the population consumed 46.3 percent while the poorest 20 percent consumed only 6.3 percent of total goods and services. Consumption was also more unequally distributed within urban areas where the Gini coefficient2 was 0.52 as opposed to 0.37 for rural areas.

The key causes of poverty are limited access to land, low education, and poor health status, limited off- farm employment and a lack of access to credit. Sectoral analysis of poverty shows that social, human capital and income indicators are very poor. In 1998, about 52 percent of the poor were female and females headed around 25 percent of households. The literacy rate was low at 58 percent where female literacy rate was at 44 percent. Education attainment, defined as completion of Standard 8, was only 11.2 percent for adults aged 25 years and above and only 6.2 percent for women.

The national gross enrolment ratio was estimated at 132 and the pupil to qualified teacher ratio was 114, leading to overcrowding in schools and lower quality of education. In terms of health indicators, life expectancy at birth has dropped from 43 years in 1996 to 39 years in 2000. In 2000, infant and under-five mortality rates were estimated to be 104 and 189 deaths per 1,000 live births, respectively. The maternal mortality rate in 2000 was 1,120 deaths per 100,000 live births 3, a rise from 620 in 1990.

The 1998 Integrated Household Survey demonstrated that subsistence agriculture remained the main source of income for the rural poor, accounting for 63.7 percent of income. Notably, income from agricultural sales was *not* the most important source of cash income in rural areas.

The major source of *cash income* for Malawian

Households, was wage income, which contributed about 13.0 percent of income

7.7.1.2 Lessons from Past Experience

Since 1981, Malawi has implemented a series of policy interventions through World Bank and IMF backed Structural Adjustment Programmes (SAPs) in order to address structural weaknesses and adjust the economy to attain sustainable growth. From 1994, these interventions have been complemented by the Poverty Alleviation programme (PAP), which emphasizes the need to raise national productivity through sustainable broad-based economic growth and socio-cultural development. Despite these interventions, poverty has remained a reality for the majority of Malawians. Inconsistent implementation of the SAPs led to only short-lived economic recovery and failed to create sustainable broad based growth. Further, many of the high costs of adjustment were borne by the poor.
Despite some successes, the PAP suffered from the absence of a well-articulated action plan to ensure a holistic approach to implementation. In particular, there have been inadequate linkages to the Budget, little prioritization and a lack of target setting.

To achieve meaningful poverty reduction and learn lessons from this past experience, the process to develop the Malawi Poverty Reduction Strategy Paper (MPRSP) was initiated. The Malawi Poverty Reduction Strategy (MPRS) outlined in the MPRSP is the overarching strategy that will form the basis for all future activities by all stakeholders, including Government. The MPRS is the product of a highly consultative process involving a broad range of stakeholders and represents a consensus about how Malawi can develop and achieve its core objective of poverty reduction.

The overall goal of the MPRS is to achieve "sustainable poverty reduction through empowerment of the poor". Rather than regarding the poor as helpless victims of poverty in need of hand-outs and passive recipients of trickle-down growth, the MPRS sees them as active participants in economic development. The MPRS also emphasizes prioritization and action.

The MPRS is built around four pillars. These pillars are the main strategic components grouping the various activities and policies into a coherent framework for poverty reduction. The first pillar promotes rapid sustainable pro-poor economic growth and structural transformation. The second pillar enhances human capital development. The third pillar improves the quality of life of the most vulnerable.

The fourth pillar promotes good governance. The MPRS also mainstreams key cross cutting issues such as HIV/AIDS, gender, environment, and science and technology.

7.2.1.3 Sustainable Pro-Poor Growth

Pro-poor growth is economic growth that involves and benefits the poor. It is a prerequisite for broadening income distribution and generating employment. The most fundamental challenge for the pillar is to offer the poor an opportunity to generate their own incomes, whilst providing the medium and large-scale private sector an enabling environment for investment. This will be achieved through the promotion of specific sectoral sources of pro-poor growth, and the creation of an enabling environment for pro-poor growth.

The key specific sectoral source of growth is agriculture. Although efforts will be made to diversify, especially through Micro, Small and Medium Scale Enterprises

(MSMEs), into natural resources, manufacturing, tourism and small-scale mining, will only supplement it.

In agriculture, the focus is on the provision of necessary services and conditions to farmers for increased incomes. This involves interventions ranging from availability of inputs through improved production technologies and value addition to marketing.

These interventions will, where, possible be targeted at farmers' clubs, associations and co-operatives. In natural resources, community-based management will be promoted in order to ensure conservation and sustainable utilization of natural resources as an additional off-farm source of income. As regards MSMEs, emphasis is on creating an enabling environment for the development and operation of MSMEs.
The MPRS reorients industrial and trade strategies to ensure increased contribution of the manufacturing, tourism and small-scale mining sectors to GDP. Deliberate attempts will be made to develop sector-specific clusters and to attract foreign capital in these sectors.

The key factors that will contribute to an environment conducive for pro-poor growth is macroeconomic stability, access to credit, and improved rural infrastructure.

Efforts will also be made to improve enabling infrastructure, strengthen trade and investment arrangements and review taxation policy. Macroeconomic stability is prerequisite for private sector development and economic growth. Access to affordable credit is one of the most important factors affecting production and therefore income of the poor. The goal in micro- finance is therefore to promote the development of a sustainable micro- finance industry. Under rural infrastructure, the key issues are to ensure rehabilitation and maintenance of existing infrastructure, and to increase investment. These issues are common to rural feeder roads, rural water supply and sanitation, rural electrification and rural telecommunications.

The MPRS refocuses resources on other enabling infrastructure development by giving priority to maintenance and rehabilitation of facilities, outlining selective investments in new facilities, promoting greater participation of the private sector, encouraging cost recovery and guaranteeing long term financial support for maintenance and rehabilitation. This applies to the core road network, power, telecommunications and broadcasting. Finally, the MPRS will further widen the tax base to facilitate the lowering of tax burden on the enterprise sector. Tax relief and incentives will be rationalized and corporate tax will also be reviewed.

7.7.1.4 Human Capital Development

The MPRS recognizes that human capital is key to poverty reduction in Malawi. A healthy and educated population leads to increased productivity, better income distribution and a generally improved standard of living. The overall goal of the pillar is to ensure that human capital of the whole population is developed to fully participate in the socio-economic development of the country. This will be achieved through the provision of basic education, technical, entrepreneurial and vocational education and training (TEVET), an Essential Healthcare Package (EHP), and the promotion of good nutrition.

In education, efforts will be made to improve quality and relevance, access and equity. Quality will be enhanced through training and adequately compensating and supervising teachers, increasing access to teaching and learning materials and revising the curricula, to incorporate cross-cutting issues, practical skills and entrepreneurial culture. In terms of access and equity, focus will be on increasing the participation of girls and children with special needs. The administration of all levels of education will also be reformed, focusing on decentralization and focusing resources on core activities.

Whilst the focus of Government's efforts and resources will be on basic education (primary education up to Standard 8 and adult literacy programmes) as the minimum requirement for poverty reduction, attention will also be paid to secondary and higher levels of education, which will provide the capacity necessary to implement the MPRS and ensure sustainable national development. However, at these levels, efforts will be made to reduce the fiscal burden by introducing cost recovery and encouraging the involvement of the private sector, together with targeted bursary schemes.

Technical, entrepreneurial and vocational education and training (TEVET) is essential in providing the population with practical and usable skills that can be used to increase income. The MPRS focuses on promoting self-employment through skills development initiatives, particularly in rural areas, and on improving the quality and relevance of all TEVET activities. The target population is not just school drop-outs but covers all persons interested in acquiring new skills.

The overall objective of the health sector is to improve the health status of Malawians by improving access to, quality and equity of health services. This will be achieved through the design and implementation of an Essential Healthcare Package (EHP).

The EHP will address the major causes of morbidity and mortality among the general population and focuses particularly on medical conditions and service gaps that disproportionately affect the rural poor.

The key strategies under the EHP are to recruit, train and adequately remunerate nurses and other health workers, to promote the construction of health facilities, especially through the construction of rural health centres and to increase the availability of drugs. These delivery components will be supported by ongoing reforms to health services, focusing resources on preventative and primary healthcare, and decentralizing management and administrative responsibilities.
Malnutrition is both a cause and a consequence of poverty. In order to improve the nutritional status of Malawians, the MPRS includes strategies aimed at improving infant and young child feeding, promoting community based nutrition interventions, and encouraging people to diversify and modify their diets.

7.7.1.5 Improving the Quality of Life of the Most Vulnerable

The proposed broad-based growth in Pillar 1 and the inclusive human capital development in Pillar 2 will go a long way in reducing the numbers of the poor.

However, it is recognized that there are still going to be some sections of the population that is not going to benefit and will need direct assistance to improve their living standards. The overall goal of the third pillar is, therefore, to ensure that the quality of life of the most vulnerable is improved and maintained at an acceptable level by providing moderate support to the transient poor and substantial transfers to the chronically poor.

To support the overall goal, four types of safety nets have been designed. Firstly, the targeted inputs programme will enhance the productivity of the capital-constrained poor by distributing free agricultural inputs. Secondly, public works programmes will increase the productivity of the labour abundant but land constrained poor by employing them to create and maintain socio-economic infrastructure. Thirdly, targeted nutrition programmes will assist malnourished children as well as lactating and pregnant mothers. In addition, direct welfare transfers will be affected to support the poor who cannot be supported by any of the three programmes. Finally, areas, individuals and households affected by disasters will benefit from any or a combination of the safety net programmes depending on the nature of the disaster.

Beneficiary targeting and selection mechanisms will be strengthened through the introduction of community-based methods.

7.7.1.6 Good Governance

Even with the best strategies for pro-poor growth, human capital and safety nets, poverty will not be reduced unless there is development-oriented governance, political will and mindset. In particular, the technical design of the MPRS will be irrelevant unless there is the political, bureaucratic and popular will to implement it. The overall objective of Pillar 4 is therefore to ensure that public institutions and systems protect and benefit the poor.

Strategies to address problems of governance will focus on strengthening systems of transparency and accountability across the public sector and ensuring popular participation in decision-making processes. Strong political-will must be demonstrated by political leaders from all parties and by other decision-makers through willingness to make and implement hard prioritization decisions and to avoid politicization of development. Issues of mindset can be addressed by a concerted effort to change the terms of political discourse away from creating expectations of material gain in return for electoral support. Instead, efforts should be made to disseminate the message that the poor have to solve their own problems and that Government alone cannot do everything.

Protection from crime, violence, arbitrary state power and injustice is a fundamental part of welfare. Insecurity makes it too risky for the poor to accumulate assets and wealth, particularly in a rural setting. To address the problem, Government will implement an integrated approach to security and justice, involving the development of increased crime control capacity through increasing police presence, and improved crime prevention through enhanced community involvement in policing and the development of counseling methods at all levels. The judicial system will work to ensure improved access to and delivery of effective and efficient justice, particularly to the poor and vulnerable. Finally, efforts will be made to ensure that the prison system is focused more on rehabilitation than punishment.

Good public expenditure management (PEM) is central to the MPRS as it will ensure that Government's limited resources are channeled to the priority activities with impact on poverty reduction. To ensure effective public expenditure management, MPRS will improve Budget implementation by strengthening the political leadership of the Budget process and ensure accountability by improving financial management and expenditure control mechanisms. Thirdly, the planning of public expenditure will be improved by increasing the comprehensiveness of the budget and strengthening links between the MPRS and the Budget. Finally, Government will promote accountability and transparency by sharing information with civil society and the media.

The efficiency and accountability of the public sector is critical to the success of the MPRS since the public sector has the mandate to lead the formulation, implementation, and monitoring of national, sectoral and district policies and actions.

The MPRS will therefore involve establishing an effective incentive structure that will improve work ethics and productivity. Government will also review the structure of the civil service so that it focuses on poverty reduction.

High levels of corruption and fraud reduce economic growth, discourage legitimate business investment, and reduce the public resources available for the delivery of services to the poor. The MPRS will take further steps to eliminate corruption and fraud by improving prevention measures, especially through the creation of a Malawi Procurement Authority (MPA) and by improving detection and prosecution, by reviewing the legal framework and strengthening the Anti-Corruption Bureau (ACB).

Decentralization focuses on the empowerment of the people for effective popular participation and decision making in the development process in their respective areas. The MPRS includes activities aimed to developing institutional capacities for local governance, transferring functions to local governments and revising institutional frameworks across Government to ensure consistency with decentralization.

At the heart of effective governance is democracy. By formally recognizing that all legal and political authority rests in the people, democratic constitutions empower the people. In practical terms, this principle operates through elections and the existence of checks and balances on the executive. The MPRS includes activities to further strengthen formal checks and balances, especially parliament and the judiciary, in addition to efforts to strengthen informal checks and balances such as the media and civil society.

Respect and exercising of human rights are fundamental to poverty reduction. In order to strengthen the protection of human rights, the MPRS includes a review of the roles and functions of the many human rights organizations and provides for capacity building where the organizations demonstrate their effectiveness. In addition efforts will be made to raise the awareness of citizens about their constitutional rights and obligations.

7.7.1.7 Cross Cutting Issues

In addition to the above components of Government's poverty reduction strategy, there are a number of cross-cutting issues that are crucial to Government's efforts to reducing poverty, such as HIV/AIDS, gender, environment and science and technology.

The spread of HIV/AIDS is threatening to undermine all attempts to reducing poverty in Malawi, both directly through the prevalence of HIV/AIDS and indirectly through the resulting shortages of skilled human resources in all sectors. The MPRS will focus on reducing incidence of HIV/AIDS, while attention will also be paid to improving the quality of life of people living with HIV/AIDS and mitigating against the economic and social impacts of HIV/AIDS.

Inequalities and disparities between women and men are still very pronounced in Malawi and this is one of the major causes of poverty among women and men. In view of this situation, efforts will be made to establish a gender sensitive formal and informal legal environment, eradicate gender based violence, and enhance women's participation in leadership and decision-making processes.

Malawi's natural resources are threatened by the demand placed on them by the poor. Despite several efforts aimed at addressing the problem, environmental degradation continues. Henceforth, the goal is to achieve poverty reduction through wise, sustainable and economic use of natural resources and the environment. Strategies include strengthening the legal and institutional framework to encourage local communities to control and sustainably manage natural resources, developing alternative livelihood strategies and creating environmental awareness.

The low content of science and technology in national economic development programmes are a barrier to economic growth and therefore exacerbate poverty.

Therefore, the MPRS will improve the capacity and capability of the national system for science and technology, intensify promotion and transfer of technologies to key livelihood systems and increase investment in research and development.

7.7.1.8 Macroeconomic and Expenditure Framework

Macroeconomic stability is a precondition for economic growth and poverty reduction, and requires fiscal discipline and tight monetary policies. Prudent fiscal management requires that Government spends within its means, and therefore that expenditure requirements are balanced with resources available in a stable macroeconomic environment.

Economic instability in the past has been characterized by high inflation and interest rates and an unstable exchange rate. This has exacerbated poverty since inflation erodes purchasing power, particularly of the poor, and acts as a disincentive to savings and investment. High interest rates make credit inaccessible to the poor and further discourage investment. In order to rectify this, Government will adopt strong fiscal, monetary and external policies. In terms of fiscal policy, further efforts will be made to improve public expenditure management, strengthen the independence of the Reserve Bank of Malawi (RBM) and accelerate the reform of the parastatal sector.

Macroeconomic projections suggest that the resource envelope consistent with a stable macro-economic environment will be K41.3 billion during 2002/3, K44.0 billion in 2003/4 and K50.3 billion in 2004/5. These projected resource envelopes are deliberately based on realistic assumptions based on past experience and technical knowledge.
This resource envelope is then linked to the costs associated with the MPRS. Three types of costs are presented: statutory, statehood and MPRS. Statutory activities are by definition those that have to be funded and cannot be scaled down. Statehood activities do not directly reduce poverty, but are essential in any country as the basic activities that enable the functioning of state by promoting and protecting national integrity, security and leadership. As with any other resource allocations, these activities must have a hard budget constraint. Any extra-budgetary expenditure on statehood activities automatically necessitates a reduction in MPRS expenditure.

MPRS costings are the core of the costing framework and are based on the estimated cost of each individual MPRS activity to be implemented by or through Government. Where possible, unit cost analysis was used to link output targets with costs.

7.7.2 MPRS Implementation, Monitoring and Evaluation

The implementation of the MPRS will involve all stakeholders4. However, the responsibility for overall co-ordination of implementation will rest with Government, and in particular, the Ministry of Finance and Economic Planning. Crucial to the success of the MPRS is the need to implement **only** the MPRS. The strategy has been designed to be comprehensive and has been costed so that it is in line with the resources available. To be implemented, the MPRS must at all levels be translated into the Medium Term Expenditure Framework (MTEF) and the Budget, and that Budget itself must be fully implemented.

Monitoring and evaluation of the MPRS implementation is key to the achievement of the goals of the MPRS. MPRS implementation will be monitored using various indicators provided in the action plan for each component of the MPRS. Monitoring and evaluation of these various levels of indicators will take place at national, district and local levels. This system will involve all interested stakeholders at each of these levels, with overall co-ordination provided by the National Economic Council.

District- level monitoring and evaluation systems are currently being designed and will be reviewed and fully integrated after the first annual review process.

The monitoring and evaluation system will assist in the annual review of MPRS.

This will take the form of stakeholders' workshops and dissemination of reports on the review process and the revised MPRSP. Annual reviews will be complemented by a comprehensive review process every three years. This comprehensive review is to be more like the initial MPRS Preparation Process, involving District Workshops.

7.7.3 Malawi Growth & Development Strategy – 2006

"The overall objective of the Malawi Growth and Development Strategy is to reduce poverty through sustained economic growth and infrastructure development"

The Malawi Growth and Development Strategy (MGDS) is the overarching operational medium-term strategy for Malawi to attain the nation's Vision 2020. The main thrust of the MGDS is to create wealth through sustainable economic growth and infrastructure development as a means of achieving poverty reduction. This is expected to transform the country from being a predominantly importing and consuming economy to a predominantly manufacturing and exporting economy.

The MGDS represents a policy shift from social consumption to sustainable economic growth and infrastructure development, particularly in rural areas through the development of rural growth centres. For the next five years emphasis will be on six key focus areas of agriculture and food security; irrigation and water development; infrastructure development; energy generation and supply; integrated rural development; and HIV and AIDS prevention and management. This policy shift does not ignore core social sectors of health and education but rather maintains a balance between the productive and social sectors of the economy. This is in recognition of the need to achieve the Millennium Development Goals (MDGs) that are also long-term development aspirations for Malawi.

The MGDS builds on the Malawi Economic Growth Strategy (MEGS) that emphasized the need to create a conducive environment for private sector investment to stimulate economic growth. The MGDS also incorporates lessons learnt from the implementation of the Malawi Poverty Reduction Strategy (MPRS).

These have informed the choice of interventions and their implementation.

Government will spearhead the implementation of the MGDS. However, all stakeholders have varying responsibilities in the implementation process. Political will, change of mindset and cooperation among the stakeholders will be particularly important for the successful implementation of the MGDS.
It is my sincere hope that the cooperation that prevailed during the development of the MGDS will continue in implementation in order to make Malawi a better nation for our people.

The Malawi Growth and Development Strategy (MGDS) is the overarching strategy for Malawi for the next five years, from 2006/07 to 2010/2011 fiscal years. The purpose of the MGDS are to serve as a single reference document for policy makers in Government; the Private Sector; Civil Society Organizations; Donors and Cooperating Partners on socio-economic growth and development priorities for Malawi.

The MGDS is centered on achieving strong and sustainable economic growth, building a healthy and educated human resource base, and protecting and empowering the vulnerable. The pre-requisites for good performance of the strategy are infrastructure development and good governance. The MGDS is based on six thematic areas namely; sustainable economic growth; social protection; social development; management and prevention of nutrition disorders and HIV and AIDS; infrastructure development; and improved governance.

The thematic framework of the MGDS represents a policy shift towards economic growth and infrastructure development. Six key focus areas have been isolated from the six thematic areas. These are agriculture and food security; infrastructure development; irrigation and water development; energy generation and supply; integrated rural development; and prevention and management of HIV and AIDS. . These have been singled out as particularly necessary for achieving the overall medium-term objectives of the MGDS.

The new emphasis in the policy direction does not necessarily imply a decrease in investment in the social sectors, but rather seeks to strike an appropriate balance between the investment in economic growth and social services. The MGDS presents a policy framework that articulates issues related to both economic growth and social development.

The MGDS also recognizes the important role of the private sector in promoting economic growth, the need to invest in social development through education, health, reduction and mitigation of the negative consequences of HIV and AIDS. The need for improving governance cannot be overlooked hence the MGDS emphasizes macroeconomic governance, decentralization, rule of law and the promotion of human rights. Lastly, it recognizes the need to protect the most vulnerable that may not benefit from the process of economic growth through social protection.

The MGDS is a product of a highly consultative and participatory process that identified specific strategies and focus actions that will be pursued and implemented in the medium-term in order to attain the aspirations of the nation. It has also built on the Malawi Economic Growth Strategy (MEGS) that emphasizes the need to create a conducive environment for private sector investment to stimulate economic growth.

7.7.4 Malawi Economic Growth Strategy

The Malawi Economic Growth Strategy (MEGS) was inspired from a joint realization by Government and the private sector that the economy had been registering negative growth and that remedial measures had to be put in place to reverse the trend. This was in recognition of the fact that the MPRS could not adequately stimulate sustainable economic growth. There was therefore need for rapid broad-based growth to expand the sectoral sources of growth. This would deepen and sustain the gains from agriculture, achieve food security and make the economy less susceptible to external shocks like weather, changes in terms of trade, political developments in the region, and fluctuations in external aid flows.

The MEGS focused on strategies and actions that did not require substantial additional spending by Government and instead could be achieved through refocusing of existing resources by developing a more conducive set of policies that would stimulate private sector investment and trade. It was envisaged, in the medium term, that Government would create the enabling environment through policy reforms with financial and technical support from donors. In this regard, the MGDS could not re-invent the wheel but rather consolidate the economic growth policies and strategies from the MEGS and lessons from the MPRS to inform the new policy direction articulated in this document.

7.7.4.1 Malawi Poverty Reduction Strategy Implementation Review

Poverty has not changed significantly for the past seven years. According to the Integrated Household Survey 2004/05, the current status of poverty shows that 52.4 percent of the population lives below the poverty line1, i.e. about 6.3 million Malawians are poor, with the poorest people in the Southern Region, and rural areas being poorer than urban areas (where poverty rates are at 25%). The poor still have poor socioeconomic indicators with food security being a continuing threat to better life, ability to integrate the poor into the process of economic development, and problems of malnutrition. Female headed households are worse off and income inequality persists in Malawi with the richest 10 percent of the population having a median per capita income that is eight times higher (MK50,373 per person per annum) than the median per capita income of the poorest 10% (K6,370 per person per annum). Approximately 30% of the poor moved out of poverty during the period, while 30% of the non-poor moved into poverty. This suggests that there is continued economic vulnerability in Malawi.

On the economic front, the main macroeconomic indicators remained unsatisfactory with the increase of domestic debt stock as a major setback. Lack of fiscal discipline has in the past contributed to unsustainable increase in the domestic debt. The combination of high interest rates and large stock of short-term domestic debt exacerbated pressure in the operation of the budget as most resources went into debt servicing.

The MGDS incorporates lessons learnt from this review while taking into consideration the current political, economic and social developments in the country. It has also been aligned with existing key sectoral strategies and policies from both private and public stakeholder institutions. Government will spearhead the implementation of the MGDS.

However, all stakeholders have varying responsibilities in the implementation process to ensure the attainment of the set goals.

7.7.4.2 MGDS Resource Envelope and Budget Framework

The successful implementation of the MGDS will depend on the resource envelope that will be revised from time to time. The total revenue and grants is currently programmed to average 38.5 percent of GDP for the next five years. Tax revenue is expected to remain at about 21 percent of the GDP in the medium term.

The total government expenditure is expected to average about 39 percent of the GDP in the current MGDS macroeconomic framework. However, capital expenditure still remains low but it is the intention of Government to increase it during the period. of the MGDS. In the previous strategies, resource allocations were tilted towards general administration and social services. The emphasis of the MGDS is to balance between social and economic sectors. The overall fiscal balance is expected to average 1.0 percent of the GDP. The MGDS budget framework is supposed to create an enabling environment for private sector development and improve economic infrastructure such as road networks, energy, water systems and telecommunication.

In addition, Government will implement a number of structural reforms to strengthen public expenditure management, tax system and administration, parastatal reform, civil service reform, decentralization, and good governance.

7.7.4.3 Key Focus Areas of the MGDS

The MGDS contains a set of focus areas identified as necessary to achieve its overall objective over the years through a national consensus. Implementation of these focus priority areas is expected to enable Malawi to move out of poverty, and hence meet its overall objectives. As outlined above, the key focus priority areas are agriculture and food security; infrastructure development; irrigation and water development; energy generation and supply; integrated rural development; and prevention and management of HIV and AIDS.

A) Agriculture and Food Security

Agriculture is the single most important sector of the economy as it employs about 80 per cent of the workforce, and contributes over 80 per cent of foreign exchange earnings.

Above all it also contributes significantly to national and household food security.

However, agriculture in Malawi is characterized by low and stagnant yields, over dependence on rain-fed farming which increases vulnerability to weather related shocks, low level of irrigation development, and low uptake of improved farm inputs among others. Consequently, Malawi continues to suffer from chronic food insecurity with many of the problems being structural and economic in nature. The goal is therefore to increase agriculture's contribution to economic growth, by not only increasing production for food security, but also for agro-processing and manufacturing for both domestic and export markets.

B) Infrastructure Development

Better domestic and regional connectivity entails improving the current state of transport infrastructure. However, the state of Malawi's transport infrastructure is characterized by poor road network, poor and limited access to ports, limited air links, freight and rail capacity. The inadequacy of the transportation infrastructure results in high costs of production, where transportation represents 55 percent of costs, compared to 17 percent in other less developed countries.
With the new policy direction, it is expected that improved transportation will contribute to the reduced lead times on export, decreased cost of domestic trucking, lower costs of cross-border and transit trade with neighbouring countries, lower cost to reach domestic, regional and international markets (supply and distribution) and improved mobility and connectivity of rural producing communities to markets.

C) Energy Generation and Supply

Energy is a crucial input into any industrial processing and serves as the life-blood for any economy. Malawi is relatively well endowed with a wide variety of energy resources but a full potential of the energy sub-sector remains far from being realized owing to a number of structural, operational and institutional challenges. The provision of energy in Malawi is inadequate, unreliable and inaccessible to all who need it largely on account of lack of competition in the sector, non-functioning power plants and inability to generate sufficient amounts of energy. The objective of the MGDS is to reduce the number and duration of blackouts, increase access to reliable, affordable electricity in rural areas and other targeted areas, improves coordination and the balance between the needs for energy and those of other high growth sectors such as tourism and mining.

7.7.4.4 Irrigation and Water Development

Irrigation and water development is key to Malawi due to its direct linkages with agriculture and energy Irrigation will contribute towards reduction of the over dependence on rain-fed agriculture while proper conservation of water will also contribute towards the generation of electricity. Key strategies include construction and promotion of small and medium scale irrigation schemes to enhance food and cash crop production.

7.7.4.5 Integrated Rural Development

Malawi recognizes local Governments as central to national development and good governance as they promote community participation in decision-making. It is the intention of Government to devolve some central Government powers, functions and resources to local authorities. Progress on this front has so far been below expectation mainly due to weak, poor and ineffective linkages between decentralization policy and other public policy reforms among others. The objective is to promote the growth and development of rural growth centres as a way of re-distributing wealth to all citizens while also mitigating the negative consequences of rural-urban migration.

7.7.4.6 Social Priorities of the MGDS

In addition to the key focus areas, the MGDS also prioritize social development in health, education, economic empowerment and social protection among others. These and all other priorities are outlined in the six thematic areas of the MGDS. The MGDS recognizes that a healthy and educated population is necessary if Malawi is to achieve sustainable economic growth. With this, Malawi seeks to achieve and sustain Millennium Development Goals (MDGs). Areas of focus include the provision of the essential health package, development of health infrastructure, prevention and mitigation of the negative consequences of HIV and AIDS. In education, priority is on providing adequate learning and teaching materials, rehabilitation and construction of modern schools at all levels.

It is also a fact that while most may benefit from economic growth and development, some may be left out due to their inability to actively participates in the development process. Government has put up plans to provide social protection to these marginalized groups of people. These include the elderly, women, disabled and children. Social protection programmes will be developed in line with human capital needs to transform these groups to keep access to social basic needs.

7.7.4.6 Malawi Growth and Development Strategy Framework

The MGDS framework is presented in six broad themes; sustainable economic growth; social protection; social development; prevention and management of nutrition disorders and HIV and AIDS; infrastructure development and improving good governance.

Theme One: Sustainable Economic Growth

The strategy for sustainable economic growth requires action on multiple fronts. These have been addressed specifically in the sub-themes outlined below:

Sub-Theme 1: Maximizing the contribution to economic growth through the sources of growth

High growth sectors will be positioned to realize economic growth in the longer term (by taking away constraints to growth) and increase employment in the medium term.

• **Tourism:** Malawi will be established as a principal and leading eco-tourism destination in Africa and domestic tourism will be increased. Strategies to be pursued include: increasing capacity to service additional tourists in international competitive accommodations; improving transportation links to tourism destinations; increasing attractiveness of national parks for tourism and ecotourism and improving tourism marketing regionally and internationally.

• **Mining:** In the medium term, production will be increased and efforts geared towards value adding by all miners. The main strategies for mining include developing a functioning institutional setting to promote mining, ensuring compliance by small, medium and large scale miners with environmental and safety standards; supporting small scale miners by integrating them in the minerals market and increasing their value added; and increasing investment by private sector companies in medium and large scale mining.

• **Integrated Cotton Industry:** The medium term outcome for the sector is to increase production of garments made from locally woven cotton cloth as opposed to imported synthetic fabrics. Key strategies include focusing efforts on identifying and negotiating trade opportunities at the global level. Due to the highly competitive nature of the industry, it will look for opportunities where it has a comparative advantage and not attempt to replicate all steps in the value chain.

• **Manufacturing:** The medium term outcome is to lay the foundation for manufacturing to take off. Key strategies include: improving the quality of products and productivity of both labour and capital; enhancing skills through better integration of science and technology into vocational training; improving standard certification capacity; developing additional incentives for investment including redefining the roles and responsibilities of support institutions.

• **Agro-processing:** The medium term expected outcomes for agro-processing are focused on tea, tobacco, sugar and cotton.

• **Core sectors of agro-processing**

• **Tea:** Tea production will be increased, especially clonally tea varieties that are competitive at the world market by focusing on increasing tea estate and smallholder profitability and reinvestment, as well as increasing value added in tea with the private sector taking a leading role.

• **Tobacco:** Malawi will maintain a position of market leader in burley, ensure quality and add value to tobacco through processing and manufacturing. Malawi will also increase production of flue cured and Northern Dark Fired tobaccos by rationalization of fees, creating a more efficient and fair system between farmers and auction floors, strengthening contract farming, and exploring additional markets for tobacco, including tobacco products. Common strategies for smallholder farmers include establishing cooperatives, providing farmers with inputs and better extension services, and irrigation.

• **Sugar:** In the medium term, sugar production will increase by 23 percent. The industry also expects to continue to move up the value chain. The main strategy is to promote out-grower schemes in the sugar industry.
• **Agricultural Productivity:** It is expected that value adding and smallholder productivity will be increased while orienting smallholders to greater commercialization and international competitiveness and increased livestock production to meet domestic demand. Key strategies include: contracting farming, strengthening linkages of farmers to markets; creating a balance between domestic and export oriented markets and provide effective extension services.

• **Conserving the natural resource base:** This strategy recognizes that sustainable use of natural resources contribute to many of the goals in the MGDS. This includes fisheries, forestry, and the environment.

• **Fisheries:** Malawi will ensure sustained fish availability for food as well as income generation. Key strategies include: increasing and sustaining the productivity of small and large scale fisheries for both domestic and export markets; enforcing legislation to ensure sustainable production of fish; promoting the use of modern techniques of fishing; capacity building through community training; and development of small scale fish farming and deep-water fishing.

• **Forestry:** The country will ensure sustainable use and management of forestry resources.

Key strategies include: improving productivity and value added by the industrial forestry sector; increasing reforestation efforts for key areas; improving enforcement of regulations for forestry management; initiation of reforestation and environmental rehabilitation programmes in priority areas; and introducing incentives for private sector participation.

• **Environmental Protection:** Efforts for environmental protection will focus on improving compliance with environment and natural resource management laws. Key strategies include: improving enforcement of environmental policies, legislation and cooperation in environmental, natural resource management and development; raising awareness of issues of protecting the environment; and incorporating environmental concerns in school curricula and establishment of an environmental management information system.

• **Wildlife:** The overall goal is to conserve and manage protected areas and wildlife. In the medium term, the sub-sector is expected to conserve, manage and develop wildlife resources to effectively contribute towards sustainable development of biodiversity and the tourism industry in Malawi.

Sub-Theme Two: Enabling environment for private sector led growth

The private sector is a recognized engine of growth. It is expected that in the medium term, there will be: an increase in the number of firms that are producing goods that are competitive in regional and international markets, in terms of both product quality and price; and that the number of Malawian firms which are contributing to exports will increase as will the supply of goods for the domestic market.

The key strategies include: addressing the infrastructure constraints; ensuring sustained macro-economic growth; improving vocational training through the current educational system; and updating equipment to meet international certification standards; implementing tax reforms as defined by the tax review; and improving coordination for domestic and international investors to resolve problems in accessing information.

Sub Theme Three: Food Security

Food will be available for all Malawians in sufficient quantities and qualities at affordable prices. Key strategies will include improving agricultural productivity and increase the variety of food available at household, national, and community levels; implementing policies to improve the functioning of the maize markets; improving the ability to import and distribute food through better domestic and regional connectivity; providing means for Malawian's to gain income and put in place effective social protection programs with improved targeting and implement a nutrition strategy while improving coordination and management of food aid.

Sub Theme Four: Export Led Growth

Malawi continues to be a member of both SADC and COMESA. The national export strategy will include promoting production of goods and services where Malawi has comparative advantage to take advantage of the existing regional markets. Key strategies include: reducing the cost of reaching external markets by focusing on linkages to Mozambique through the Shire Zambezi waterway, reduced restrictions on air transport; reducing lead times on export and improve efficiency of customs operations, improve marketability of export products through improved certification, trade network and information for export.

Sub Theme Five: Economic Empowerment

The productivity of rural communities and businesses will increase to enhance employment and income especially by increasing number of women and youths who actively participate in economic activities. Key strategies include: targeting infrastructure development to ensure that rural communities are linked to markets;

developing rural cooperatives to lower transaction costs and helping communities with collective bargaining; strengthening the policy environment for micro-finance, including improved coordination of donor programs; offering vocational and other training for small businesses; and targeting women's participation in economic growth activities.

Sub Theme Six: Land and Housing

The MGDS recognizes the importance of land as a basic factor of production as well as the sole source of livelihood for the majority of Malawians. However, inadequate access to land by majority of Malawians has been identified as one of the critical factors contributing to poverty in the country. The goal in the long term is to ensure tenure security and equitable access to land for the attainment of broad-based social and economic development through optimum and ecologically balanced use of land and land Malawi Growth and Development Strategy based resources. It is expected that in the medium term there will be an efficient use of land and land based resources and equitable access to land by all productive Malawians and other investors.

Among the key activities, there will be need to promote and facilitate opportunities for lowering land transaction costs and enhance the operation of effective land markets, and support the privatization of some land services in an effort to encourage the development of private sector participation in land sector activities.

Theme Two: Social Protection & Disaster Risk Management

Protecting the most vulnerable will require action on four fronts namely:

- Caring for the most vulnerable with limited factors of production (malnourished under-five children, school-going children, orphans, pregnant and lactating mothers, and destitute families);
- Preventing the vulnerable from slipping into poverty due to economic shocks;
- Increasing the assets of the poor to enable them to engage in economic development activities; and
- Preventing disasters where possible and mitigating the negative impact of disasters on the vulnerable.

Sub Theme One: Protecting the vulnerable

Protection of the vulnerable is designed to ensure that the most vulnerable people with limited factors of production are sufficiently cushioned through programmes to improve health and nutritional status of under-five children, school-age children, orphans, pregnant and lactating mothers and destitute families. The strategy will also focus on improving planning and integration of knowledge on the needs of the chronically poor; provision of opportunities for the poor farmers and rural communities to graduate from poverty by facilitating their integration in mainstream agricultural productivity and enabling them to accumulate wealth.

Sub Theme Two: Improving disaster risk management

The main aim is to reduce the socio-economic impact of disasters as well as build a strong disaster management mechanism. The key strategy is enhancing disaster management, planning, and response. Among others, efforts will be made to promote the integration of disaster risk management into sustainable development planning and programming at all levels.

Theme Three: Social Development

Social Development is critical in achieving economic growth and poverty reduction. This strategy is specifically focused on:

- providing essential health care and strengthening service delivery;
- improving the quality, relevance, access, and management of education at all levels; and
- promoting gender equality.

Sub Theme One: Health and Population: Improving health requires a multifaceted approach with a combination of preventive, educational and clinical measures. Key strategies include: increasing and retaining the number of well qualified health personnel; increasing availability and supply of drugs and preventing theft of drugs and equipment; improving health facilities and equipment; and improving financial management, monitoring and supervision of health care services.

Sub Theme Two: Education: In the education sector, emphasis will be on equipping students, especially at primary school level with basic knowledge and skills to enable them function as competent and productive citizens; to provide academic basis for gainful employment in the informal, private and public sectors; and to produce high quality professionals with relevant knowledge. Key strategies include the provision of teaching and learning materials, training of teachers, and construction of appropriate classrooms.

Sub Theme Three: Gender: The overall priority goal is to mainstream gender in the national development process to enhance participation of women and men, girls and boys for sustainable and equitable development. Key strategies include undertaking affirmative measures to include women in decision-making positions; and promotion of advocacy for gender equality.

Theme Four: Prevention and Management of Nutrition Disorders, HIV and AIDS

Sub Theme One: Nutrition: In the medium term, efforts will focus on ensuring effective utilization of quality food and the biological utilization of nutrients in the body; reduced levels of malnutrition among all Malawians; reduced incidences and cases of dietary related non-communicable diseases and micro-nutrient disorders; and increased productivity and availability of food crops. Key strategies include enhancing coordination of nutrition programmes, building capacity for nutritionists and dieticians, and community nutrition workers.

Sub Theme Two: HIV and AIDS: The MGDS incorporates strategies of the National Action Framework on AIDS and the UNAIDS three-ones principles – one agreed action framework, one national AIDS coordinating authority, and one agreed country level monitoring and evaluation system. It seeks to not only halt and reverse the spread of HIV and AIDS, but also to decrease the negative impact of the epidemic on people living with AIDS and reduce the economic and social consequences for those who care for people living with HIV and AIDS.

Sub Theme Three: Interaction of Nutrition and HIV and AIDS:
The HIV and AIDS pandemic have compounded the dual burden of malnutrition and disease. It increases the body's need for micronutrients, calories and protein while simultaneously decreasing the body's ability to work. This means that as more nutritious food is needed within a household, less labour is available with which to produce or obtain it. This leads to less nutritious food for everyone else in the household and inadequate diet for the person living with HIV and AIDS. The long-term goal is improve the nutritional status and support services for people living with and affected by HIV and AIDS. In the medium-term, It is expected that there will be increased knowledge of the interaction between nutrition and HIV and AIDS; improved and diversified dietary practices for people living with HIV and AIDS; and increased provision of HIV and AIDS-related nutrition interventions.

Theme Five: Infrastructure Development

Infrastructure is critical to achieving the growth and social objectives of Government.

The strategy is focused on five main areas, namely: transport; energy; water and sanitation; information and communication technologies; and science and technology research.

Sub Theme One: Transportation

Investment in the transport infrastructure in roads, rail, air and water has direct impact on linking production and markets as well as improving access to social services. Improved transportation reduces transport costs and leads to creation of marketing networks. High quality and availability of transport facilities provide social benefits through improved access to social services: education, health, markets by facilitating mobility, especially for rural communities. In the short term, construction of these infrastructures will provide income through employment of people.

- **Roads:** In the medium term, efforts will be on improving mobility and accessibility of the population to key road corridors within Malawi and out of Malawi while facilitating the improved mobility and accessibility of rural communities to goods and services at low cost.
- **Water transport:** The key medium term outcome for water transport is improved inland shipping network that is active in local and international shipping, trade and tourism in a safe manner while protecting the environment. Efforts will also be directed towards plans to navigate the Shire so that the country could have direct access by water to the ports along the Indian Ocean.
- **Rail:** In the medium term, the rail sub-sector will be a well-managed and viable system that promotes accessible, affordable and reliable movement of goods and people. Key strategies include: improving operational efficiency and commercial viability of railway; and levels of service to all users, including people with disabilities, at affordable cost; and promoting railway safety and environmental protection.
- **Air:** Malawi will attain and maintain a competitive, self-sufficient and sustainable civil aviation environment that ensures safety in accordance with national and international standards and enables the provision of services in a reliable and efficient manner. Key strategies include providing a safe, efficient and reliable aviation infrastructure.

Sub Theme Two: Energy

It is expected that the country will have reliable, sustainable and affordable energy supply in the medium-term. At the same time, rural communities will begin to use alternative energy supplies for power in under served areas while managing energy related environmental impacts. Key strategies include: promoting efficient energy generation, transmission, distribution and utilization; targeting electrification for key sectors such as mining, irrigation, and tourism that would stimulate economic growth and improve the financial viability of key utilities;

reducing parastatal losses by improving management of ESCOM so as to have fair pricing and affordable rates; implementing the Malawi/Mozambique inter-connection grid; increasing access to sustainable energy systems through accelerated the Rural Electrification Programme; and developing public-private partnerships in energy and identification of reliable funding mechanisms.

Sub Theme Three: Water Supply and Sanitation

In the medium term, Malawi intends to increase access to water within 500m distance for all people, thereby ensuring that basic water requirements of every Malawian are met while the country's natural ecosystem is preserved. Key strategies include: empowering national authorities to manage water resources using integrated water resource management approach and establishing good monitoring systems; improving the quality of surface and ground water and developing a system for pollution control by among others improving the skills, technologies and techniques in water quality monitoring and pollution control and by preventing use of substances and aquatic plants that can pollute water resources.

Sub Theme Four: Information, Communication and Technology (ICT)

Telecommunications: The long term goal is to have a well developed, affordable and efficient telecommunications system accessible to those who need it. The expected medium term outcomes will be an effective, affordable and efficient telecommunications system. Key strategies include: developing a system that is conducive to business operations; and enacting appropriate legislation that promotes interest of new entrants.
Information Technology: In the medium term, the country shall have developed ICT infrastructure and improved e-governance. Broadcasting by radio and television will be the main focus for disseminating information to the public.

Sub Theme Five: Research, Science and Technology

The goal is to attain sustainable socio-economic development through the development and application of science and technology in order to improve industrial productivity and quality of goods and services.

Theme Six: Improved Governance

Good governance requires action on seven fronts as follows:

- Achieving and sustaining macroeconomic growth;
- Strengthening public policy formulation and implementation in a transparent and responsive manner;
- Improving service delivery and accountability at the local level through decentralization;
- Developing a strong justice system and rule of law;
- Ensuring personal security;
- Establishing an institutional setting for good corporate governance; and
- Promotion of human rights.

Sub Theme One: Macroeconomic Growth

The goal is to sustain economic growth, reduce dependency on foreign aid and generate investor confidence. In the medium term it is expected that Malawi shall achieve a stable environment with low inflation, lower interest rates, and stable and non-volatile exchange rates, sustainable domestic and external debt.

Sub Theme Two: Public Policy Formulation, Fiscal Management, Public Sector

Management and Corruption:

In Malawi, the public sector has in the past been characterized by poor management that has generated inefficiencies in the delivery of public goods and services. Government and its developing partners are already addressing some of the challenges with interventions such as wage policy reforms, civil service reforms, capacity constraints and eradicating corruption.

Sub Theme Three: Decentralization: In the medium term it is expected that local assemblies will be in full control of community planning at district level, ensure effective accountability and good governance, vibrant monitoring and evaluation system, clear and strengthened linkages of various policy reforms, and reduced conflicts of roles among various stakeholders at the district level.

Sub Theme Four: Developing a strong justice system and rule of law: It is expected that Malawi shall have a more responsive and effective judicial authority with sustained administration of justice, increased public confidence in the judicial system and improved ability of private sector to obtain equitable and fair settlement of disputes in reasonable time and at reasonable cost.

Sub Theme Five: Security: In the medium term, emphasis is to prevent and reduce crime levels. Key strategies include: improving the responsiveness of police to communities' security needs by reducing the police-population ratio through recruitment and training of more officers; promoting effective prosecution and punishment; effective crime detection, investigation and prevention through the provision of adequate technical and financial support to the police; strengthening partnership for risk management between private sector and the police for protection of business property; and enhancing community integration and participation in crime prevention, and detection through civic education.

Sub Theme Six: Corporate Governance: The implementation of the code of best practices on corporate governance in the medium term is expected to enhance private sector performance through reduced corruption and fraud and improve investor perceptions of Malawi as an attractive investment destination. This is expected to translate into increased levels of domestic and foreign direct investment. Key strategies include: popularizing the need and role of the Institute of Directors to play a leading role in facilitating the adoption of good corporate governance code of best practices; mobilization of private sector support for this initiative which will facilitate the sustainable operations of the new institution and its operations.

Sub Theme Seven: Human Rights

Human rights are an integral part of the overall national development agenda. However, awareness of human rights is a concern among many people in Malawi. MGDS recognizes that empowering the most vulnerable groups that form the larger part of the population can effectively contribute to social, economic and political development of the country. In this regard the MGDS will therefore also focus on public awareness of human rights and acknowledgement of human rights responsibilities

7.7.4.7 MGDS Implementation, Monitoring and Evaluation

The MGDS implementation will involve all stakeholders including; the Executive, Parliament, Judiciary, civil society organizations, private sector and the general public. It is expected that donors and co-operating partners will align their support and activities to the MGDS. The main tool for implementing the MGDS will be the annual national budget through medium term expenditure framework. The Public Sector Investment Programme (PSIP) will be aligned towards the medium term outcomes and strategies in the MGDS. Budget submissions that either include activities outside the MGDS or exclude activities inside MGDS will be rejected. The monitoring of MGDS will be in accordance with the monitoring and evaluation master plan developed by Government in collaboration with the donor community. The stakeholders will align indicators in accordance with the MGDS themes and sub themes.

7.7.4.8 Malawi Rural Energy and Institutional

A Paper by Dean Girdis and Mangesh Hoskote states that development agenda of the government of Malawi identifies as high priorities poverty reduction and the need for targeted interventions for the poorest. Because more than 80 percent of Malawi's population lives in rural areas and the incidence of poverty is higher in rural areas than in urban areas, the government's is directing its poverty alleviation efforts primarily at rural development.

Most rural incomes derive directly or indirectly from agriculture, including forestry and fishing. Successful agricultural development is thus a precondition for successful rural development. The rapid growth of the rural population, land scarcity, mounting environmental pressures, and the migration to urban areas of rural jobseekers mean that the development of off-farm and non-farming income sources also must be seen as an integral component of rural development; the importance of access to energy, both modern and traditional, in productive (income-generating) applications and as a vital element in the improvement of the rural life also must be recognized.

Need for New Rural Energy Policy Framework

The primary energy resources in rural Malawi are biomass. Kerosene is used to a limited extent for lighting, but household cooking is done predominantly using wood-fuel products and crop residues. Access to electricity is negligible, despite the existence of what is by southern African standards a robust transmission network. The government recognizes that to achieve the desired growth in rural areas it must provide additional, sustainable energy supplies. These supplies must be environmentally sound, socially acceptable, and economically viable.

The government and the donor community must be strongly committed from the outset to the long-term goals of rural development. They must be fully prepared to employ innovative policies to encourage local community involvement in forest resource management and private sector participation in the generation and distribution of electricity. The distribution of electricity may be achieved through extension of the grid or through decentralized off-grid systems; either way, it will require the creation of a new policy framework to facilitate achievement of the government's objectives.
At the request of the Ministry of Energy and Mining (MOEM) of the Republic of Malawi, the joint World Bank/United Nations Development Programme Energy Sector Management Assistance Programme (UNDP ESMAP) carried out a study of the existing policy framework of the biomass energy, rural electrification, and renewable energy subsectors. The ESMAP team visited Malawi twice for two weeks in late 1997 and early 1998 to review Malawi's existing policies in these subsectors, visiting rural areas with the potential for rural electrification and meeting with bilateral agencies to review their rural energy activities. During its stay the team worked closely with a counterpart team from the MOEM, the Electricity Supply Commission of Malawi (ESCOM), and the Ministry of Forestry, Fisheries, and Environmental Affairs (MOFFEA).

This report summarizes the results of this study and makes a series of policy and institutional recommendations intended to facilitate the achievement of national policy objectives in these subsectors.

This study reviews Malawi's policies in the biomass, rural electrification, and non-biomass renewable energy subsectors to identify problems and constraints to progress and to propose policies, initiatives, and institutional structures to overcome those problems and constraints.

7.7.4.9 The Biomass Subsector

Biomass is Malawi's most important energy resource, in 1996 providing 89 percent of all energy consumed. Fuel wood is used to meet most rural energy needs and charcoal is the primary fuel used in urban areas.

The wood fuel supply and demand position is satisfactory. Total consumption of wood fuels is about one-third the estimated annual yield from the country's wood resources. There are, however, important regional imbalances. The northern region, for example, has about one-half of the country's wood resources but is home to only about 20 percent of the population.

Deforestation

There are some signs of stress on woodland resources in the southern region and around the major towns, but deforestation as a result of wood fuel harvesting is not yet a serious issue.

Deforestation due to other reasons is in some areas substantial. In 1996 an estimated 73,000 hectares of natural woodlands was permanently cleared for arable agriculture to meet the needs of a growing population.

Where deforestation is occurring it is progressively concentrating wood fuel harvesting on a diminishing resource base. There is a danger that the effect on the resource base could become significant. If this is to be avoided deforestation due to agricultural expansion must be slowed down and eventually reversed. This can only be achieved if the increases in agricultural output that are required to raise food and cash earnings are obtained through higher productivity, rather than through expansion of the area under cultivation.

The Wood fuel Trade

The positive aspects of the availability and consumption of wood fuel should be considered in all policy discussions relating to the biomass subsector. In addition to meeting the bulk of household energy needs in rural and urban areas, the commercial wood fuel business is a relatively large provider of rural employment.
In 1996 an estimated 70,000 people, most of them self-employed rural people, were fully occupied in the business of wood fuel energy, from the growing of trees to the delivery of the final product. Wood fuel traded in the marketplace represented some 3.5 percent of total gross domestic product (GDP).

Obstacles to Sustainable Fuel wood Production

Rural people are allowed to freely remove forest products from no reserved areas for their own use, but are legally obligated to obtain permission from the Department of Forestry for the removal of products for sale. This obligation is rarely met. The removal of forest products from reserved areas is forbidden but goes largely unchecked. Similarly, the government policy that in the past banned charcoal production in woodland areas was largely ignored. There is today an extensive illegal trade in charcoal.

The casual pilferage of fuel wood, illegal charcoal-making, and the destruction of forest resources thus occur on a widespread scale; these activities are largely unchecked and are tacitly accepted.

Any large-scale organized harvesting of fuel wood by local people on which a sustainable system of Malawi: Rural Energy and Institutional Development exploitation might be based would necessarily contravene the existing regulatory system. The system as a consequence can only be seen as a barrier to the rational long-term management of Malawi's wood fuel resources by the local communities that are best placed to carry it out and that would have a strong vested interest in seeing it succeed.

Toward a Sustainable Biomass Policy

It is recommended that the government take immediate steps to:

- reform the legislative and regulatory framework to permit and encourage local management of woodlands on a commercially viable and environmentally sustainable basis;
- facilitate the expansion of private tree planting;
- institute community-based land use planning and management systems assisted by Department of Forestry extension service staff;
- develop and implement a system of stumpage fees to encourage the efficient use of wood fuel resources; and
- provide technical assistance for the wood fuel industry in tree growing, production, and marketing.

Parallel Measures to Increase Agricultural Productivity

It must be recognized that any measures that focus directly on the wood fuel issue need to be seen within the wider context of the agricultural system as a whole. The long-term survival and productivity of the country's forest resources ultimately depends on the implementation of a parallel range of policies that intensify and increase the productivity of the agricultural system.
Regulations that would reserve critical land areas for water protection and flora and fauna conservation and that provide advice to local authorities need to be drawn up and entrusted to an appropriate land use planning body. In the absence of these wider measures the expansion of agricultural activities into the country's woodland areas will inevitably continue.

7.7.4.10 the Electricity Subsector

The operational performance of the national power utility, ESCOM, is relatively poor: there are frequent supply interruptions and brownouts. The system is almost entirely dependent on the hydropower stations on the Shire River; major capacity problems are foreseen because the water flow in the river appears to be declining.

Only about 25 percent of urban households and about 1 percent or rural households have electricity supply, and the rate of expansion of the system is declining: the delay in connecting new consumers increased more than tenfold from 1990/91 to 1995/96, from 14 days to 150 days. Rural electrification is almost at a standstill.

ESCOM is nominally an autonomous parastatal organization, but in reality all decisions on tariff setting, investments, and borrowing are made by the government. Electricity is being sold at about 40 percent of its long-run marginal cost, and as a result ESCOM is unable to recover its costs, earn a profit, or meet its loan covenants with lending institutions. This has contributed to poor technical and commercial performance and low employee productivity and morale.

The heavily subsidized price of electricity is to the degree that electricity is the cheapest cooking fuel in the country and has exacerbated these problems by encouraging an explosion of demand among those that have an electricity connection. The government's justification for subsidizing electricity is Executive Summary 3 to make it affordable to the poor for lighting, but as the great majority of the poor do not have electricity supply the greater part of the benefits from the subsidy go to middle- and upper-income consumers.

The poor performance of ESCOM has ripple effects that are felt throughout the economy.

Forced outages and rolling brownouts are harming industrial output and are forcing large electricity users to invest in diesel generator sets, thus depressing economic activity and increasing the dependence on imports.

Need for Reform or Restructuring of ESCOM

A range of measures is required if ESCOM is to be reformed or restructured such that it can play the part required of it in Malawi's economy. Annex I of this report provides a detailed discussion of four different restructuring options for the power subsector and a possible implementation schedule.
The exact choice of structure and the modalities of its implementation are matters for government decision. What is not in any serious doubt, however, is that major reform is urgently needed.

Rural Electrification

The government has expressed its intention to promote rural electrification, and a new framework of institutional arrangement has been drawn up under which responsibility for rural electrification has been given to the Ministry of Energy and

Mining (MOEM). There is, however, no practical policy on rural electrification. The existing regulations are unclear with regard to whether ESCOM or the MOEM is ultimately responsible for rural electrification.

Prerequisites for Successful Rural Electrification

Successful rural electrification programs in the developing and newly industrializing world are providing an accumulating and compelling body of evidence on the prerequisites for such programs. These prerequisites include the following:

- an effective institutional structure for the implementing agency;
- autonomy in decision-making, freedom from outside interference, and clearly defined criteria for the choice of areas to be electrified;
- a realistic charging policy that permits the rural electrification service to be run on a sustainable basis;
- low entry barriers that allow the largest possible number of consumers to obtain electricity supply;
- prioritization of areas for electrification in accordance with their existing level of infrastructural provision, development, and economic activity;
- involvement of the local community in planning and implementation; and
- minimization of capital and operating costs.

The fact that these criteria have not been applied in Malawi explains why rural electrification has made so little headway. Specifically, the adherence to a one-dimensional model has been a major obstacle to rural electrification. There is one developer (the state), one technical solution (grid extension), one operator (ESCOM), and one uniform and low tariff nationwide. The government has a critical leadership role to play in articulating a rural electrification policy and implementation mechanisms, but it should not be the sole developer of the system. The opening up of the power sector furthermore should be accompanied by the involvement of local communities as well as private sector operators in decentralized rural grids as an alternative (not a substitute) to grid-based rural electrification.

The main focus of government policy should be the exploration and support of effective and economic ways of increasing service provision to the urban poor and to low-density rural areas.

These ways include the following:

(a) applying technical means of reducing distribution, connection, wiring costs, and so on;
(b) providing innovative micro-financing, leasing, and other means of reducing initial costs;
(c) designing cost-reflective tariffs;
(d) encouraging a diversity of investors and investments, such as private, cooperative, and joint private/public off-grid and micro grid systems;
(e) emphasizing local participation and institutional development;

(f) promoting a wide variety of energy choices, such as by supporting solar and other renewable energy technologies and back-up services, as increasingly important and cost-effective options for supplying electricity in rural areas; and

(g) limiting the role of government to addressing market failures, ensuring the creation of a level playing field, and providing financial and technical assistance.

Developing a Comprehensive Policy for the Electricity Subsector

Investment in rural electrification initially must concentrate on those areas in which investments in agricultural development, roads, health services, education, and other infrastructural requirements have already been made or are planned for the immediate future.

Rural electrification rightly is a long-term objective of the government. The most critical function of the government at this point is to create enabling legal and regulatory frameworks for the development and operation on a commercial basis of grid-based and off-grid networks by ESCOM and private sector entities.

The government must create legal and regulatory frameworks for rural electrification and must define the role of community organizations and private sector entities in these projects. The government should see itself as a facilitator of rural electrification rather than as an implementing agency.

Issues that need to be addressed relating to the government's role as a facilitator include the following:

- the restructuring of ESCOM to deal with the crisis in the generation and distribution of electricity (and thereby the creation of a basis for rural electrification);
- the revision of connection charges, especially capital contribution charges, such that ESCOM's investments in distribution are incorporated in its database;
- the development of safety standards for low-cost technologies for rural electrification distribution networks;
- the encouragement of entrepreneurs to enter the electrical service contracting business; and
- the provision of incentives to encourage existing medium-voltage and low-voltage.

Non-biomass Renewable Energy Technologies

The promotion of non-biomass renewable energy technologies, the most promising of this is solar energy, is at an early stage in Malawi. There is evidence to suggest that some of these technologies could provide the least-cost option in meeting certain rural energy demands. There may be potential for the establishment of self-sustaining markets in these technologies.

Experience from around the world suggests that the most successful renewable energy dissemination programs generally meet four criteria.

These are that the project under implementation is or has a realistic prospect of becoming:

- economically justifiable;
- financially viable;
- institutionally sustainable; and
- locally replicable.

The Government of Malawi released in August 1997 the final draft of its report *National Sustainable and Renewable Energy Programme*. This report includes an initial identification of the conditions required to create an enabling environment in which the private sector might be encouraged to provide renewable energy equipment and services.

This enabling environment ideally would abolish, or at least reduce, the existing high barriers to the entry of companies into the business of providing non-biomass renewable energy equipment and services. These barriers include duties and surtaxes that add significantly to the cost and selling prices of equipment for the private market; the absence of end-user financing that can be tapped for renewable energy applications in rural areas; and the widespread lack of knowledge of the potential options for renewable energy-based equipment and services.

If the potential for renewable energy technologies in Malawi is to be realized, significant changes will be required to the institutional structure of existing policies. Among the policy options that should be considered are the following:

- *Freedom to set fees.* Private companies providing energy services should be allowed to operate on a fee-for-service basis, independent of the national electricity tariff;
- *Active support of international joint ventures.* The government should encourage joint ventures between local companies and international firms in rural energy provision;
- *Establishment of standards for rural energy service enterprises and equipment.* The government, working with industry, should establish standards of service for rural energy service enterprises and standards for the associated equipment, components, and systems.

This would prevent companies that lack adequate technical or financial resources from undercutting the market with inferior goods and services.

- *Mandatory performance reviews.* Performance reviews and assessments of rural energy enterprises by independent organizations should be mandated. Through such reviews standards can be revised and best practices identified and disseminated.
- *Incorporation of renewable energy systems into rural programs.* The government should commit itself to overseeing the incorporation of renewable energy into rural development projects in potable water, health services, and education. It should seek to identify cases in which

renewable energy provides a technically adequate and least-cost solution, and should make all such opportunities fully known to the private sector.
- *Removal of import duties, tariffs, and surcharges.* The government should release off-grid energy components and systems from import duties and taxes.

End of Chapter Summary

In this chapter, you have looked at the categories of budgets as prescribed in the Desk Instructions item 2.3.1 of the Malawi government. These are approved budgets, revised budgets and supplementary budgets as the broad categories of budgets. You have also learnt the other classifications of budgets that are classified according to the type of expenditure, giving rise to Expenditure budgets. You have also learned that as per Desk Instructions 2.3.2, statutory budgets, development budgets and recurrent budgets are expenditure budgets.

You have studied the requirements of IPSAS 24 for the presentation of budget information. In particular time was spent in examining the implication of the standard in the budgeting process in terms **Statement of**

Comparison of Budget and Actual amounts

As the government makes publicly available its approved budgets, it is required to present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the statement of cash receipts and payments currently presented in accordance with this Standard

You have looked at the long term developments plans of the government in relation to budgeting process.

Sample Questions

1. Explain broad categories of budget in Public Sector.
2. Briefly outline the budget information as per the requirements of IPSAS 24.
3. Briefly explain the long term development plans of the followings:
    - Vision 2020;
    - Malawi Poverty Reduction strategies;
    - Malawi Rural Energy and Institutional Development;
    - Malawi HIV Prevention strategy; and
    - Climate Change Strategy.

Chapter 8

REVENUE MANAGEMENT

8.1 Introduction

The government has the constitutional responsibility to provide essential services to its citizenry. The services include, schools, roads, security, among the many.

In order to carry out its work, the government must have funds to finance them. This will be possible by ensuring that it has adequate and sufficient funds. To ensure the adequacy and sufficiency of funds, it has to have a good financial system.

The financial system of the government has become complex over the years. The recent challenges have complicated the situation even further making the collection of revenue more challenging.

The revenues of government come from Tax; Grants and sales of goods and services.

8.2 Learning Objectives

At the end of the chapter, students should be able:

- Explain the differences sources of revenues for the different forms of public sector organizations.
- Describe ways of collecting and custody of tax and non tax revenues.
- Explain the objectives of taxation within the public sector context
- Explain the different types of taxes and their implications.
- Explain the different types of non- tax revenues.
- Describe the methods of accounting for revenue in public sector
- Prepare an extract of financial statements for exchange and non-exchange revenue transactions.
- Describe internal controls in the public sector revenue management

8.3 Revenue Collection and Management

8.3.1 Responsibility for Revenue Management

Controlling Officers of MDAs shall manage revenue efficiently and effectively by implementing appropriate processes that provide for identification, collection, recording, safeguarding and reconciliation of information in respect of revenue.

8.3.2 Receiver of Revenue

Officers designated as Receivers of Revenue shall be responsible for the correct assessment and collection of those items of revenue assigned to them.

Revenue Collectors

Revenue collectors shall collect and account for revenue and other public moneys falling within their control in accordance with instructions issued by the designated Receiver of Revenue.

Foreign Currency

Foreign currency shall not be accepted from the public when paying for goods and services except with the approval of the Secretary to the Treasury. Foreign currency shall be accepted as payment for immigration fees by citizens of other nationalities at all immigration points and offices.

Laws and Regulations

All officers shall familiarize themselves with the law or regulations governing the collection of revenue for which they are responsible to ensure that revenues are collected at the prescribed rates.

Types of Revenue

Officers shall ensure that the revenue types specified in the annual estimates are collected accordingly.

In case there is doubt as to the correct classification of revenue, the matter shall be referred to the Secretary to the Treasury for direction.

Money owed to Government

Any officer who is unable to collect money due to Government shall report the circumstances in writing and without delay to his supervisor.

Payments tendered to an officer who is not an accounting officer: If for any reason payment of an amount due to Government is tendered to an officer who is not a Revenue Collector, the officer concerned shall request the member of public to make the payment to the nearest Revenue Collector.

Whenever a public officer, not being a Revenue Collector, nevertheless comes into receipt of public money, he/she shall pay it to a Treasury Cashier or the Cashier in an MDA without delay, arranging for a receipt to be forwarded to the member of public.

Refunds of revenue in current year

Refunds of revenue collected during the current financial year shall be charged to the Head and Item of revenue originally credited.
Refund of revenue collected in previous years

Refund of revenue collected during previous years shall be charged to the appropriate vote and item in the current year to which it relates.

Refunds in such cases shall be made under the following circumstances:

(a) Where the refund is provided for by law or order of court;
(b) Refunds of salary deductions;
(c) Refunds of tax on evidence of tax collected twice for the same year; and
(d) In all other cases the application for approval of a refund shall be made to the Accountant General.

Credit Sales

Goods or services shall not be supplied or provided on credit unless specifically authorized by the Secretary to the Treasury.

Where credit facilities are approved, Receivers of Revenue shall issue written instructions for the control, issue and use of serially numbered invoices and the maintenance of adequate debtors' records.

Reporting Requirements

Receiver of revenue shall submit annually to the Accountant General a return, of arrears of revenue outstanding at the 30th June, not later than 31st July following. For the purpose of this instruction, arrears of revenue shall not include debts due from Malawi Government MDAs.

Revenue Control Books and Register of Outstanding Revenue

Receivers of Revenue shall keep Revenue Control Book and Register of outstanding Revenue in the prescribed form.

Reconciliation

The Accountant General shall forward monthly to Receivers of Revenue statements of Revenue as recorded in the Government Accounts. These statements shall be reconciled with the revenue recorded in the Revenue Control Book. Any instance where the amounts shown on the statements differ from the revenue recorded in the Revenue Control Book shall be investigated immediately. All necessary adjustments shall be made to ensure that the accounts reflect the true position.

Remission of Revenue

The Minister of Finance, after consulting the Secretary to the Treasury, shall authorize any officer to remit any revenue which shall be due to the Government.

The Secretary to the Treasury shall refund as statutory expenditure sums of money not properly payable to the Government where such sums were deposited to the consolidated fund within six years, when an application has been made for the *refund.*

8.4 Collection and Control of Government Revenue

8.4.1 Introduction

The overall responsibility for collection and accounting of Government Revenue rests with designated Receivers of revenue as notified in Treasury Circular Instructions issued from time to time. Each Receiver of Revenue shall designate Revenue Collectors who are authorised to collect revenue in his Ministry/Department.

Revenue control and accounting has three objectives:-

(i) To ensure that all revenue due is promptly collected;
(ii) To ensure that revenue collected is promptly accounted for; and
(iii) To ensure that adequate internal controls exist to prevent loss or misappropriation of revenue.

8.4.2 Responsibility for Collection and Accounting

It is the responsibility of the Revenue Collectors to collect revenue falling within their jurisdiction and account for it to the Treasury Cashier or their ministry's holding account. Revenue Collectors shall ensure that:

(i) Prescribed documents are kept to record revenue due and collected.
(ii) Revenue due is promptly collected, properly allocated and brought to account.
(iii) Proper arrangements exist for custody of cash and accounting documents.
(iv) Monthly returns of revenue collected and outstanding monthly revenue returns are submitted to Receivers of Revenue.
(v) Revenue collected does not fall below their budget provisions
(vi) Each revenue collector is personally responsible for collection and accounting for revenue within his jurisdiction and is liable to be surcharged for any loss arising due to his negligence.
(vii) The Accountant General forwards monthly reports of revenue collected to Receivers of Revenue who are responsible for reconciling these with monthly returns submitted by the Revenue Collectors. Each Receiver of Revenue shall submit monthly returns to the Treasury and Accountant General, which monitors the trend of revenue collected as compared with the approved Estimates.

8.4.3 General Provisions of Treasury Instructions

Instructions for collection and accounting of revenue are listed below:-

(i) The Secretary to the Treasury may, if he considers it to be necessary authorise a revenue collector to deposit his revenue direct to a bank or bank agency.
(ii) Where such written authority is issued, the collecting officer shall forward a copy of each bank deposit slip, stamped by the bank or bank agency, to the Ministry of Finance.

(iii) Revenue collections shall be allocated in the accounts strictly in accordance with the classification in the annual estimates.

(iv) A printed receipt on prescribed form shall be issued to the payer when money is received. A notice advising the public to demand receipts shall be exhibited in each Revenue Collector's office.

(v) Receipt books shall be kept in safe custody and their receipt and issue controlled through a separate serially numbered Register of Receipt Books. Loss of receipt books shall be reported immediately as per Treasury Instructions.

(vi) Revenue collected shall be recorded at the earliest in a Cash Book

(vii) Details of Revenue paid-in shall be recorded in a Revenue Detail Sheet (Form GP.191)

(viii) Revenue Collectors shall submit a monthly return of revenue by the 5th of the following month to Controlling Officers.

(ix) Receivers of revenue are required to maintain a Revenue Collectors Chart (Form ACC. 79). Defaulting collectors shall be reported to their Controlling Officers and the Accountant General.

(x) Controlling Officers shall submit a monthly return of revenue collected to the Accountant General by the 15th of the following month.

(xi) A Return of Arrears of Revenue at the close of the financial year shall be submitted to the Accountant General by 31st August of the following year.

(xii) Supervisors shall carry out surprise checks of cash, cashbooks and other accounting documents at frequent intervals.

8.4. 4 Procedures

The process of revenue collection and control involves four stages:-

(i) Assessment of revenue due;
(ii) Collection;
(iii) Accounting; and
(iv) Reporting.

8.4.5 Assessment of Revenue Due

Officers responsible for assessment and collection of revenue shall be familiar with applicable laws and regulations.

All departments responsible for collecting revenue shall prescribe suitable Register or Forms to record the amount due for collection and the amounts collected for example, Invoice Register, Demand notices and Collection Registers for taxes etc.

Revenues which are assessed at fixed rates for example rents, school fees, shall be recorded in separate Registers designated for this purpose with approval of the Accountant General. Invoices (or demand notices) shall be issued in all cases and collections recorded against the relevant entry in the Register.

As far as possible, the work of maintaining records of revenue due and the actual collection of revenue shall be handled by different persons.

8.4.6 Collection of Revenue

Targets for Collection by Revenue Collectors

The approved budget estimate gives the total amount to be collected in the year in respect of each Revenue Vote/Item. At the beginning of the financial year, the Revenue Section at Cost Centres shall apportion the budget provision among Revenue Collectors based on the quarterly pattern of collections in the previous year and the draft revenue estimates submitted by the heads of departments. The revenue targets shall be advised to each Revenue Collector. It is the responsibility of Revenue Collectors to ensure that actual collection of revenue does not fall below the target fixed.

Issue of Receipts

(i) Before accepting money, revenue collectors shall verify that the amounts tendered in payment of Government dues agree with the amount indicated in the assessment register of other records

(ii) An official receipt on prescribed form shall invariably be issued at the time money is received. General receipt Form shall be used where no special form is prescribed.

(iii) Receipts are important documents and shall be carefully completed in ballpoint or indelible pencil.

(iv) Only double-sided carbon paper shall be used.

(v) A Revenue Collector writes a general receipt in triplicate and distributes as follows: -

    (a) Original copy is the accounts copy;
    (b) Duplicate copy is a customer's copy; and
    (c) Triplicate is office copy.

(vi) Receipts shall be issued in numerical sequence and shall show the name and address of the payer, amount in words and figures, account code, mode of payment (cash or cheque) and nature of the transaction.

(vii) The account classification shall be strictly in line with the classification shown in the budget estimates.

(viii) All copies shall bear the official date stamp and signature of the Revenue Collector.

(ix) There shall be no alterations or erasures. Incorrect receipts shall be cancelled and the next one issued.

(x) If a receipt is to be cancelled, all copies with the same serial number shall be cancelled and signed. The official receipt and the accounts copy shall be attached to the station account. The third copy is retained in the book.

(xi) Requests received for replacement of a receipt lost by the payer shall be referred to the Accountant General for instructions.

Control of Receipt Books

(i) The main stock of receipt forms is held by the Treasury Cashier, Zomba, who issues receipt books to other Revenue Collectors on receipt of their requisitions.

(ii) On receipt, the receiver of revenue shall check that:

(a) Number of Receipt Books received is correct; and
(b) There is no obvious mutilation.

(c) The first and last counterfoils of each book are intact and correctly numbered.
(d) Revenue Collectors shall duly sign in a Register kept at Treasury Cashier the serial numbers of the books they have collected.
(e) Receivers of Revenue issue receipt books only to authorised revenue collectors who are placed in account with them and shall maintain a record of receipt books issued to each Revenue Collector.
(f) On obtaining Receipt Books from the Receiver of Revenue, the Revenue Collector shall check each page in the books issued to him. If any discrepancy is found at that stage, the Receiver of Revenue shall immediately submit a report to the Accountant General and the Auditor General.
(g) A Register of Receipt Books in the form of Annexure II shall be kept by all officers entrusted with receipt and issue of Receipt Books. Separate folios shall be used for each type of receipt form and a separate line for each book.
(h) Receipt Books shall not be transferred from one officer to another without proper handing-over and taking-over procedure as prescribed in Part 11 of the Treasury Instructions.
(i) Receivers of Revenue in Ministry or Department shall check the stock of unused Receipt Books at least twice in the year or more frequently as the situation demands. The immediate supervisor of custodian of the Register shall do the verification. The Verifying Officer shall sign the verification certificate **(Annexure III)** which shall appear at the first page of the Register. Discrepancies if any shall be reported immediately to the Controlling Officer, Accountant General and the Auditor General.
(j) Receipt Books shall be kept securely under lock and key in the personal custody of the officer to whom these are issued.

Acceptance of Bank Certified Cheques in Payment of Government Dues

(i) Cheques tendered in payment of Government dues shall only be bank certified unless it is inter ministerial transactions; and

(ii) Before accepting a cheque it shall be ensured that:

- (a) The date is correct;
- (b) The amount in words and figures agree;
- (c) All cheques received shall immediately be crossed “Not negotiable Account Malawi Government”;
- (d) All cheques shall be deposited into the bank account of the revenue holding bank account of the receiver of revenue;
- (e) A stamped pre numbered bank deposit slip shall be obtained and presented to the bank at the time revenue is paid in;
- (f) Foreign bank cheques can be accepted only by revenue collectors authorised to do so. Receipts for such bank cheques shall be issued in Malawi currency at the appropriate rate as advised by the Reserve Bank of Malawi;
- (g) Foreign currency notes cannot be accepted without a specific authority from the Accountant General; and
- (h) If any loss is incurred through the delay in depositing cheques the officer responsible for the delay shall be required to make good the loss.

Returned Cheques

(i) Cheques accepted in payment of Government dues, which are later dishonoured by the bank, shall be debited by the bank to the account of the cash office, which deposited the cheque.

(ii) If the cheque was deposited in the bank account of the revenue collector, on receipt of the debit advice from the bank, the revenue collector shall:

- (a) Prepare a payment voucher (GP 10) debiting the vote to which the cheque amount was originally credited.
- (b) Enter the payment voucher in his Cashbook.
- (c) Enter the particulars of the cheque in the Register for RD cheques.
- (d) Write to the drawer of the cheque to bring cash or bank certified cheque and related costs equivalent to the dishonoured cheque. If the cheque was returned because of a technical error, request the drawer to supply a replacement cheque.

(iii) On receiving the amount of the cheque the revenue collector shall:

- (a) Issue a General Receipt for the amount in favour of the Revenue collector and attach the official receipt to the payment voucher;
- (b) Enter the receipt in the Cashbook; and
- (c) Endorse the General Receipt number at the back of the dishonoured cheque, which shall be handed over to the drawer in acknowledgement of the cash, or replacement cheque received.

(iv) In case the amount of the dishonoured cheque is not received within 7 days, the matter shall be reported to the Controlling Officer or Malawi

Revenue Authority if taxes under advice to the Accountant General for instituting proceedings for recovery. If the drawer of the dishonoured cheque was a civil servant a copy of the report shall be sent to the Controlling Officer of the civil servant for recovery from the officer's salary.

(v) A register of "Refer to Drawer" cheques shall be maintained to monitor a receipt of the amount from the drawer.

(vi) If the dishonoured cheque was deposited in the bank account of the receiver of revenue to whom the collector pays in revenue, the Treasury Cashier or Sub-Accountant shall:

   (a) Prepare a payment voucher debiting the head of account originally credited;
   (b) Enter the amount in his Cashbook; and
   (c) Forward the dishonoured cheque together with the payment advice (GP 36) to the revenue collector.

(vii) Thereafter it shall be the responsibility of the revenue collector to recover the amount and take action as stated in subparagraph (ii) above.

(viii) On receipt of cash or replacement Bank Certified cheque, the revenue collector shall forward the official receipt to the receiver of revenue for attachment to the payment voucher.

(ix) IPSAS 23: Revenue from non- exchange transactions.

Objective

The objective of this Standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non exchange transactions that give rise to an entity combination. The Standard deals with issues that need to be considered in recognizing and measuring revenue from non-exchange transactions including the identification of contributions from owners.

Scope

An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue from non-exchange transactions. This Standard does not apply to an entity combination that is a non-exchange transaction.

This Standard applies to all public sector entities other than Government.

Business Enterprises

The majority of revenue of governments and other public sector entities are typically derived from non-exchange transactions such as:

(a) Taxes; and
(b) Transfers (whether cash or non-cash), including grants, debt forgiveness, fines, bequests, gifts, donations, and goods and services in-kind.

Definitions

The following terms are used in this Standard with the meanings specified:

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.
Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Non-Exchange Transactions

In these transactions an entity will receive resources and provide no or nominal consideration directly in return. These are clearly non-exchange transactions. For example, taxpayers pay taxes because the tax law mandates the payment of those taxes. Whilst the taxing government will provide a variety of public services to taxpayers, it does not do so in consideration for the payment of taxes.

There is a further group of non-exchange transactions where the entity may provide some consideration directly in return for the resources received, but that consideration does not approximate the fair value of the resources received. In these cases the entity determines whether there is a combination of exchange and non-exchange transactions, each component of which are cognized separately.

There are also additional transactions where it is not immediately clear whether they are exchange or non-exchange transactions. In these cases an examination of the substance of the transaction will determine if they are exchange or non-exchange transactions. For example, the sale of goods is normally classified as an exchange transaction. If, however, the transaction is conducted at a subsidized price, that is, a price that is not approximately equal to the fair value of the goods sold, that transaction falls within the definition of a non-exchange transaction.

In determining whether the substance of a transaction is that of a non-exchange or an exchange transaction, professional judgment is exercised. In addition, entities may receive trade discounts, quantity discounts, or other reductions in the quoted price of assets for a variety of reasons. These reductions in price do not necessarily mean that the transaction is a non-exchange transaction.

Revenue

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the reporting entity, which represents an increase in net assets/equity, other than increases relating to contributions from owners. Amounts collected as an agent of the government or another government organization or other third parties will not give rise to an increase in net assets or revenue of the agent. This is because the agent entity cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives.

Where an entity incurs some cost in relation to revenue arising from a non-exchange transaction, the revenue is the gross inflow of future economic benefits or service potential, and any outflow of resources is recognized as a cost of the transaction. For example, if a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are included in the amount recognized as an asset, in accordance with IPSAS 17, "Property, Plant and Equipment."

Stipulations

Assets may be transferred with the expectation and or understanding that they will be used in a particular way and, therefore, that the recipient entity will act or perform in a particular way. Where laws, regulations or binding arrangements with external parties impose terms on the use of transferred assets by the recipient, these terms are stipulations as defined in this IPSAS. A key feature of stipulations, as defined in this Standard, is that an entity cannot impose a stipulation on itself, whether directly or through an entity that it controls.

Stipulations relating to a transferred asset may be either conditions or restrictions. While conditions and restrictions may require an entity to use or consume the future economic benefits or service potential embodied in an asset for a particular purpose (performance obligation) on initial recognition, only conditions require that future economic benefits or service potential be returned to the transferor in the event that the stipulation is breached (return obligation).
Stipulations are enforceable through legal or administrative processes. If a term in laws or regulations or other binding arrangements is unenforceable, it is not a stipulation as defined by this Standard. Constructive obligations do not arise from stipulations. IPSAS 19, "Provisions, Contingent Liabilities and Contingent

Conditions on Transferred Assets

Conditions on transferred assets (hereafter referred to as conditions) require that the entity either consume the future economic benefits or service potential of the asset as specified or return future economic benefits or service potential to the transferor in the event that the conditions are breached.

Therefore, the recipient incurs a present obligation to transfer future economic benefits or service potential to third parties when it initially gains control of an asset subject to a condition. This is because the recipient is unable to avoid the outflow of resources as it is required to consume the future economic benefits or service potential embodied in the transferred asset in the delivery of particular goods or services to third parties or else to return to the transferor future economic benefits or service potential. Therefore, when a recipient initially recognizes an asset that is subject to a condition, the recipient also incurs a liability.

As an administrative convenience, a transferred asset, or other future economic benefits or service potential, may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The reporting entity's financial statements will still recognize the gross amounts in its financial statements, that is, the entity will recognize a reduction in assets and liabilities for the return of the asset under the terms of the breached condition, and will reflect the recognition of assets, liabilities and or revenue for the new transfer.

Restrictions on Transferred Assets

Restrictions on transferred assets (hereafter referred to as restrictions) do not include a requirement that the transferred asset, or other future economic benefits or service potential is to be returned to the transferor if the asset is not deployed as specified. Therefore, gaining control of an asset subject to a restriction does not impose on the recipient a present obligation to transfer future economic benefits or service potential to third parties when control of the asset is initially gained.

Where a recipient is in breach of a restriction, the transferor, or another party, may have the option of seeking a penalty against the recipient, by, for example, taking the matter to a court or other tribunal, or through an administrative process such as a directive from a government minister or other authority, or otherwise. Such actions may result in the entity being directed to fulfill the restriction or face a civil or criminal penalty for defying the court, other tribunal or authority. Such a penalty is not incurred as a result of acquiring the asset, but as a result of breaching the restriction.

Substance over Form

In determining whether a stipulation is a condition or a restriction it is necessary to consider the substance of the terms of the stipulation and not merely its form. The mere specification that, for example, a transferred asset is required to be consumed in providing goods and services to third parties or be returned to the transferor is, in itself, not sufficient to give rise to a liability when the entity gains control of the asset.

In determining whether a stipulation is a condition or restriction, the entity considers whether a requirement to return the asset or other future economic benefits or service potential is enforceable and would be enforced by the transferor. If the transferor could not enforce a requirement to return the asset or other future economic benefits or service potential, the stipulation fails to meet the definition of a condition and will be considered a restriction. If past experience with the transferor indicates that the transferor never enforces the requirement to return the transferred asset or other future economic benefits or service potential when breaches have occurred, then the recipient entity may conclude that the stipulation has the form but not the substance of a condition, and is, therefore, a restriction.

Taxes

Taxes are the major source of revenue for many governments and other public sector entities. Taxes are defined as economic benefits compulsorily paid or payable to public sector entities, in accordance with laws or regulation, established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws or regulation.

Non-compulsory transfers to the government or public sector entities such as donations and the payment of fees are not taxes, although they may be the result of non-exchange transactions. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers.

Tax laws and regulations can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Tax laws and regulations establish a government's right to collect the tax, identify the basis on which the tax is calculated, and establish procedures to administer the tax, that is, procedures to calculate the tax receivable and ensure payment is received. Tax laws and regulations often require taxpayers to file periodic returns to the government agency that administers a particular tax. The taxpayer generally provides details and evidence of the level of activity subject to tax, and the amount of tax receivable by the government is calculated. Arrangements for receipt of taxes vary widely but are normally designed to ensure that the government receives payments on a regular basis without resorting to legal action. Tax laws are usually rigorously enforced and often impose severe penalties on individuals or other entities breaching the law.

Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes.

Initial Analysis of the Inflow of Resources from Non-Exchange Transactions

An entity will recognize an asset arising from a non-exchange transaction when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset, the entity decreases the carrying amount of the liability. In some cases, gaining control of the asset may also carry with it obligations that the entity will recognize as a liability. Contributions from owners do not give rise to revenue, so each type of transaction is analyzed and any contributions from owners are accounted for separately. Consistent with the approach set out in this Standard, entities will analyze non-exchange transactions to determine which elements of general purpose financial statements will be recognized as a result of the transactions.

The flow chart on the following page illustrates the analytic process an entity undertakes when there is an inflow of resources to determine whether revenue arises.

Recognition of Assets

Assets are defined in IPSAS 1, "Presentation of Financial Statements" as resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset shall be recognized as an asset when, and only when**:**

(a) It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and
(b) The fair value of the asset can be measured reliably.

Control of an Asset

The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. In the public sector, governments exercise a regulatory role over certain activities, for example financial institutions or pension funds. This regulatory role does not necessarily mean that such regulated items meet the definition of an asset of the government, or satisfy the criteria for recognition as an asset in the general purpose financial statements of the government that regulates those assets.
An announcement of an intention to transfer resources to a public sector entity is not of itself sufficient to identify resources as controlled by a recipient. For example, if a public school was destroyed by a forest fire and a government announced its intention to transfer funds to rebuild the school; the school would not recognize an inflow of resources (resources receivable) at the time of the announcement. In circumstances where a transfer agreement is required before resources can be transferred, a recipient entity will not identify resources as controlled until such time as the agreement is binding because the recipient entity cannot exclude or regulate the access of the transferor to the resources. In many instances, the entity will need to establish enforceability of its control of resources before it can recognize an asset.
If an entity does not have an enforceable claim to resources, it cannot exclude or regulate the transferor's access to those resources.

Past Event

Public sector entities normally obtain assets from governments, other entities including taxpayers, or by purchasing or producing them. Therefore the past event which gives rise to control of an asset may be a purchase, a taxable event, or a transfer. Transactions or events expected to occur in the future do not in themselves give rise to assets – hence for example, an intention to levy taxation is not a past event that gives rise to an asset in the form of a claim against a taxpayer.

Probable Inflow of Resources

An inflow of resources is "probable" when the inflow is more likely than not to occur. The entity bases this determination on its past experience with similar types of flows of resources and its expectations regarding the taxpayer or transferor. For example, where a government agrees to transfer funds to a public sector entity (reporting entity), the agreement is binding and the government has a history of transferring agreed resources, it is probable that the inflow will occur, notwithstanding that the funds have not been transferred at the reporting date.

Contingent Assets

An item that possesses the essential characteristics of an asset, but fails to satisfy the criteria for recognition may warrant disclosure in the notes as a contingent asset.

Contributions from Owners

In determining whether a transaction satisfies the definition of a contribution from owners, the substance rather than the form of the transaction is considered. If, despite the form of the transaction, the substance is clearly that of a loan or another kind of liability, or revenue, the entity recognizes it as such and makes an appropriate disclosure in the notes to the general purpose financial statements, if material.

For example, if a transaction purports to be a contribution from owners, but specifies that the reporting entity will pay fixed distributions to the transferor, with a return of the transferor's investment at a specified future time, the transaction is more characteristic of a loan.

A contribution from owners may be evidenced by, for example:

(a) A formal designation of the transfer (or a class of such transfers) by the contributor or a controlling entity of the contributor as forming part of the recipient's contributed net assets/equity, either before the contribution occurs or at the time of the contribution;
(b) A formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets/equity of the recipient which can be sold, transferred or redeemed; or
(c) The issuance, in relation to the contribution, of equity instruments which can be sold, transferred or redeemed.

Exchange and Non-Exchange Components of a Transaction

Where an asset is acquired by means of a transaction that has an exchange component and a non-exchange component, the entity recognizes the exchange component according to the principles and requirements of other IPSASs. The non-exchange component is recognized according to the principles and requirements of this Standard. In determining whether a transaction has identifiable exchange and non-exchange components, professional judgment is exercised. Where it is not possible to distinguish separate exchange and non-exchange components, the transaction is treated as a non-exchange transaction.

Recognition of Revenue from Non-Exchange Transactions

An inflow of resources from a non-exchange transaction recognized as an asset shall be recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.

As an entity satisfies a present obligation recognized as a liability in respect of an inflow of resources from a non-exchange transaction recognized as an asset, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.

Measurement of Revenue from Non-Exchange Transactions
Revenue from non-exchange transactions shall be measured at the amount of the increase in net assets recognized by the entity.
Present Obligations Recognized as Liabilities
A present obligation arising from a non-exchange transaction that meets the definition of a liability shall be recognized as a liability when and only when:

(a) It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and
(b) A reliable estimate can be made of the amount of the obligation.

Present Obligation

A present obligation is a duty to act or perform in a certain way and may give rise to a liability in respect of any non-exchange transaction. Present obligations may be imposed by stipulations in laws or regulations or binding arrangements establishing the basis of transfers. They may also arise from the normal operating environment, such as the recognition of advance receipts.

In many instances, taxes are levied and assets are transferred to public sector entities in non-exchange transactions pursuant to laws, regulation or other binding arrangements that impose stipulations that they be used for particular purposes.

For example:

(a) Taxes, the use of which is limited by laws or regulations to specified purposes; and
(b) Transfers established by a binding arrangement that includes conditions:

(i) From national governments to provincial, state or local governments;
(ii) From state/provincial governments to local governments;
(iii) From governments to other public sector entities;
(iv) To governmental agencies that are created by laws or regulation to perform specific functions with operational autonomy, such as statutory authorities or regional boards or authorities; and
(v) From donor agencies to governments or other public sector entities.

Conditions on a Transferred Asset
Conditions on a transferred asset give rise to a present obligation on initial recognition.

An entity analyzes any and all stipulations attached to an inflow of resources, to determine whether those stipulations impose conditions or restrictions.

Measurement of Liabilities on Initial Recognition
The amount recognized as a liability shall be the best estimate of the amount required to settle the present obligation at the reporting date.
The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognized. Where the time value of money is material, the liability will be measured at the present value of the amount expected to be required to settle the obligation.

Taxes

An entity shall recognize an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

Taxation revenue arises only for the government that imposes the tax, and not for other entities. For example, where the national government imposes a tax that is collected by its taxation agency, assets and revenue accrue to the government, not the taxation agency. Further, where a national government imposes a sales tax, the entire proceeds of which it passes to state governments, based on a continuing appropriation, the national government recognizes assets and revenue for the tax, and a decrease in assets and an expense for the transfer to state governments. The state governments will recognize assets and revenue for the transfer. Where a single entity collects taxes on behalf of several other entities, it is acting as an agent for all of them.

For example, where a state taxation agency collects income tax for the state government and several city governments, it does not recognize revenue in respect of the taxes collected – rather, the individual governments that impose the taxes recognize assets and revenue in respect of the taxes.

Some taxes are levied for specific purposes. If the government is required to recognize a liability in respect of any conditions relating to assets recognized as a consequence of specific purpose tax levies, it does not recognize revenue until the condition is satisfied and the liability is reduced. However, in most cases, taxes levied for specific purposes are not expected to give rise to a liability because the specific purposes amount to restrictions not conditions.

The Taxable Event

Similar types of taxes are levied in many jurisdictions. The reporting entity analyzes the taxation law in its own jurisdiction to determine what the taxable event is for the various taxes levied. Unless otherwise specified in laws or regulations, it is likely that the taxable event for:

(a) Income tax is the earning of assessable income during the taxation period by the taxpayer;
(b) Value added tax is the undertaking of taxable activity during the taxation period by the taxpayer;
(c) Goods and services tax is the purchase or sale of taxable goods and services during the taxation period;
(d) Customs duty is the movement of dutiable goods or services across the customs boundary;
(e) Death duty is the death of a person owning taxable property; and
(f) Property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Advance Receipts of Taxes

Resources for taxes received prior to the occurrence of the taxable event are recognized as an asset and a liability (advance receipts) because the event that gives rise to the entity's entitlement to the taxes has not occurred and the criteria for recognition of taxation revenue have not been Satisfied, notwithstanding that the entity has already received an inflow of resources. Advance receipts in respect of taxes are not fundamentally different from other advance receipts, so a liability is recognized until the taxable event occurs. When the taxable event occurs, the liability is discharged and revenue is recognized.

Measurement of Assets Arising from Taxation Transactions

The standard requires that assets arising from taxation transactions be measured at their fair value as at the date of acquisition. Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the entity.

Where there is a separation between the timing of the taxable event and collection of taxes, public sector entities may reliably measure assets arising from taxation transactions by using, for example, statistical models based on the history of collecting the particular tax in prior periods.

Transfers

An entity shall recognize an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transfers include grants, debt forgiveness, fines, bequests, gifts, donations and goods and services in-kind. All these items have the common attribute that they transfer resources from one entity to another without providing approximately equal value in exchange and are not taxes.
Tansfers satisfy the definition of an asset when the entity controls the resources as a result of a past event (the transfer) and expects to receive future economic benefits or service potential from those resources. Transfers satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

An entity obtains control of transferred resources either when the resources have been transferred to the entity, or the entity has an enforceable claim against the transferor.

Debt Forgiveness and Assumption of Liabilities

Lenders will sometimes waive their right to collect a debt owed by a public sector entity, effectively canceling the debt. For example, a national government may cancel a loan owed by a local government. In such circumstances, the local government recognizes an increase in net assets because a liability it previously recognized is extinguished.

Fines

Fines are economic benefits or service potential received or receivable by a public sector entity, from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws or regulations.

In these cases, the individual will normally have the choice of paying the fine, or going to court to defend the matter. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the payment is recognized as a fine.

Bequests

A bequest is a transfer made according to the provisions of a deceased person's will. The past event giving rise to the control of resources embodying future economic benefits or service potential for a bequest occurs when the entity has an enforceable claim, for example on the death of the testator, or the granting of probate, depending on the laws of the jurisdiction.

Bequests which satisfy the definition of an asset are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. Determining the probability of an inflow of future economic benefits or service potential may be problematic if a period of time elapses between the death of the testator and the entity receiving any assets.

The entity will need to determine if the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. If the will is disputed, this will also affect the probability of assets flowing to the entity.

Bequests are measured at the fair value of the resources received or receivable.

Gifts and Donations, including Goods In-kind

Gifts and donations are voluntary transfers of assets including cash or other monetary assets, goods in-kind and services in-kind that one entity makes to another, normally free from stipulations. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation.

Goods in-kind are tangible assets transferred to an entity in a non-exchange transaction, without charge, but may be subject to stipulations. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind.

Gifts and donations (other than services in-kind) are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. With gifts and donations, the making of the gift or donation and the transfer of legal title are often simultaneous, in such circumstances; there is no doubt as to the future economic benefits flowing to the entity.

Goods in-kind are recognized as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received without conditions attached, revenue is recognized immediately. If conditions are attached, a liability is recognized, which is reduced and revenue recognized as the conditions are satisfied.

On initial recognition, gifts and donations including goods in-kind are measured at their fair value as at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification.

For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles and many types of plant and equipment.

Services In-kind

An entity may, but is not required to, recognize services in-kind as revenue and as an asset.

Services in-kind are services provided by individuals to public sector entities in a non-exchange transaction. These services meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential is expected to flow to the entity. These assets are, however, immediately consumed and a transaction of equal value is also recognized to reflect the consumption of these services in-kind.

For example, a public school that receives volunteer services from teachers' aides, the fair value of which can be reliably measured, may recognize an increase in an asset and revenue, and a decrease in an asset and an expense. In many cases, the entity will recognize an expense for the consumption of services in-kind. However, services in-kind may also be utilized to construct an asset, in which case the amount recognized in respect of services in-kind is included in the cost of the asset being constructed.

Pledges

Pledges are unenforceable undertakings to transfer assets to the recipient entity. Pledges do not meet the definition of an asset because the recipient entity is unable to control the access of the transferor to the future economic benefits or service potential embodied in the item pledged. Entities do not recognize pledged items as assets or revenue. If the pledged item is subsequently transferred to the recipient entity, it is recognized as a gift or donation, in accordance with paragraphs 93 – 97 above. Pledges may warrant disclosure as contingent assets under the requirements of IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets."

Advance Receipts of Transfers

Where an entity receives resources before a transfer arrangement becomes binding, the resources are recognized as an asset when they meet the definition of an asset and satisfy the criteria for recognition as an asset. The entity will also recognize an advance receipt liability if the transfer arrangement is not yet binding. Advance receipts in respect of transfers are not fundamentally different from other advance receipts, so a liability is recognized until the event which makes the transfer arrangement binding occurs and all other conditions under the agreement are fulfilled. When that event occurs and all other conditions under the agreement are fulfilled, the liability is discharged and revenue is recognized.

Disclosures

An entity shall disclose either on the face of, or in the notes to, the general purpose financial statements:

(a) The amount of revenue from non-exchange transactions recognized during the period by major classes showing separately:

  (i) Taxes, showing separately major classes of taxes;
  (ii) Transfers, showing separately major classes of transfer revenue: and

(b) The amount of receivables recognized in respect of non-exchange revenue.
(c) The amount of liabilities recognized in respect of transferred assets subject to conditions.
(d) The amount of assets recognized that are subject to restrictions and the nature of those restrictions.
(e) The existence and amounts of any advance receipts in respect of non-exchange transactions.
(f) The amount of any liabilities forgiven.

An entity shall disclose in the notes to the general purpose financial statements:

(a) The accounting policies adopted for the recognition of revenue from non-exchange transactions;
(b) For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;
(c) For major classes of taxation revenue which the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax; and
(d) The nature and type of major classes of bequests, gifts, donations showing separately major classes of goods in-kind received.

Transitional Provisions

Entities are not required to change their accounting policies in respect of the recognition and measurement of taxation revenue for reporting periods beginning on a date within five years following the date of first adoption of this Standard.

Entities are not required to change their accounting policies in respect of the recognition and measurement of revenue from non-exchange transactions, other than taxation revenue, for reporting periods beginning on a date within three years following the date of first adoption of this Standard.

Changes in accounting policies in respect of the recognition and measurement of revenue from non-exchange transactions made before the expiration of the five year period permitted shall only be made to better conform to the accounting policies of this Standard. Entities may change their accounting policies in respect of revenue from non-exchange transactions on a class by class basis.

Effective Date

This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after June 30, 2008. Earlier application is encouraged. If an entity applies this Standard for periods beginning before June 30, 2008, it shall disclose that fact

IPSAS 9- Revenue from Exchange Transaction

Scope

An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for revenue arising from the following exchange transactions and events**:**

(a) The rendering of services;
(b) The sale of goods; and
(c) The use by others of entity assets yielding interest, royalties and dividends.

This Standard applies to all public sector entities other than Government Business Enterprises.
This Standard does not deal with revenue arising from non-exchange transactions.

Definitions

The following terms are used in this Standard with the meanings specified:
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Revenue

Revenue includes only the gross inflows of economic benefits or service potential received and receivable by the entity on its own account. Amounts collected as agent of the government or another government organization or on behalf of other third parties, for example the collection of telephone and electricity payments by the post office on behalf of entities providing such services, are not economic benefits or service potential which flow to the entity and do not result in increases in assets or decreases in liabilities. Therefore, they are excluded from revenue. Similarly, in a custodial or agency relationship, the gross inflows of economic benefits or service potential include amounts collected on behalf of the principal and which do not result in increases in net assets/equity for the entity.

Measurement of Revenue

Revenue should be measured at the fair value of the consideration received or receivable.

The amount of revenue arising on a transaction is usually determined by agreement between the entity and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

Identification of the Transaction

The recognition criteria are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognized as revenue over the period during which the service is performed. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the effect cannot be understood without reference to the series of transactions as a whole. For example, an entity may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together.

Rendering of Services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognized by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

(a) The amount of revenue can be measured reliably;
(b) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
(c) The stage of completion of the transaction at the reporting date can be measured reliably; and
(d) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Revenue is recognized only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.

An entity is generally able to make reliable estimates after it has agreed to the following with the other parties to the transaction:

(a) Each party's enforceable rights regarding the service to be provided and received by the parties;
(b) The consideration to be exchanged; and
(c) The manner and terms of settlement.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue should be recognized only to the extent of the expenses recognized that are recoverable.

During the early stages of a transaction, it is often the case that the outcome of the transaction cannot be estimated reliably. Nevertheless, it may be probable that the entity will recover the transaction costs incurred.

Therefore, revenue is recognized only to the extent of costs incurred that are expected to be recoverable. As the outcome of the transaction cannot be estimated reliably, no surplus is recognized.

When the outcome of a transaction cannot be estimated reliably and it is not probable that the costs incurred will be recovered, revenue is not recognized and the costs incurred are recognized as an expense. When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue is recognized.

Sale of Goods

Revenue from the sale of goods should be recognized when all the following conditions have been satisfied:

(a) The entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
(b) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
(c) The amount of revenue can be measured reliably**;**
(d) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
(e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the purchaser. This is the case for most sales.

However, in certain other cases, the transfer of risks and rewards of ownership occurs at a different time from the transfer of legal title or the passing of possession.

If the entity retains significant risks of ownership, the transaction is not a sale and revenue is not recognized. An entity may retain a significant risk of ownership in a number of ways. Examples of situations in which the entity may retain the significant risks and rewards of ownership are:

(a) When the entity retains an obligation for unsatisfactory performance not covered by normal warranty provisions;
(b) When the receipt of the revenue from a particular sale is contingent on the derivation of revenue by the purchaser from its sale of the goods (for example, where a government publishing operation distributes educational material to schools on a sale or return basis);
(c) When the goods are shipped subject to installation and the installation is a significant part of the contract which has not yet been completed by the entity; and
(d) When the purchaser has the right to rescind the purchase for a reason specified in the sales contract and the entity is uncertain about the probability of return.

If an entity retains only an insignificant risk of ownership, the transaction is a sale and revenue is recognized. For example, a seller may retain the legal title to the goods solely to protect the collectability of the amount due.

Interest, Royalties and Dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends should be recognized when:

(a) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
(b) The amount of the revenue can be measured reliably.

Revenue should be recognized using the following accounting treatments:

(a) Interest should be recognized on a time proportion basis that takes into account the effective yield on the asset;
(b) Royalties should be recognized as they are earned in accordance with the substance of the relevant agreement; and
(c) Dividends or their equivalents should be recognized when the shareholder's or the entity's right to receive payment is established.

Disclosure

An entity should disclose:

(a) The accounting policies adopted for the recognition of revenue including the methods adopted to determine the stage of completion of transactions involving the rendering of services;

(b) The amount of each significant category of revenue recognized during the period including revenue arising from:

  (i) The rendering of services;
  (ii) The sale of goods;
  (iii) Interest;
  (iv) Royalties; and
  (v) Dividends or their equivalents; and

(c) The amount of revenue arising from exchanges of goods or services included in each significant category of revenue.

Effective Date

This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after July 1, 2002. Earlier application is encouraged.

Rendering of Services

1. *Housing*
   Rental income from the provision of housing is recognized as the income is earned in accordance with the terms of the tenancy agreement.
2. *School transport*
   Revenue from fares charged to passengers for the provision of school transport is recognized as the transport is provided.
3. *Management of toll roads*
   Revenue from the management of toll roads is recognized as it is earned based on the usage of the roads.
4. *Processing of court cases*
   Revenue from the processing of court cases can be recognized either by reference to the stage of completion of the processing, or based on the periods during which the courts are in session.
5. *Management of facilities, assets or services*
   Revenue from the management of facilities, assets or services is recognized over the term of the contract as the management services are provided.
6. *Science and technology research*
   Revenue received from clients from contracts for undertaking science and technology research is recognized by reference to the stage of completion on individual projects.
7. *Installation fees*
   Installation fees are recognized as revenue by reference to the stage of completion of the installation, unless they are incidental to the sale of a product in which case they are recognized when the goods are sold.
8. *Servicing fees included in the price of the product*
   When the selling price of a product includes an identifiable amount for subsequent servicing (for example, after sales support and product enhancement on the sale of software), that amount is deferred and recognized as revenue over the period during which the service is performed. The amount deferred is that which will cover the expected costs of the services under the agreement, together with a reasonable return on those services.
9. *Insurance agency commissions*
   Insurance agency commissions received or receivable which do not require the agent to render further service are recognized as revenue by the agent on the effective commencement or renewal dates of the related policies.
   However, when it is probable that the agent will be required to render further services during the life of the policy, the commission, or part thereof, is deferred and recognized as revenue over the period during which the policy is in force.
10. *Financial service fees*
    The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Therefore, it is necessary to distinguish between fees which are an integral part of the effective yield of a financial instrument, fees which

are earned as services are provided, and fees which are earned on the execution of a significant act.

(a) *Fees which are an integral part of the effective yield of a financial instrument*
Such fees are generally treated as an adjustment to the effective yield. However, when the financial instrument is to be measured at fair value subsequent to its initial recognition the fees are recognized as revenue when the instrument is initially recognized.

(b) *Fees earned as services are provided*

(i) *Fees charged for servicing a loan*
Fees charged by an entity for servicing a loan are recognized as revenue as the services are provided. If the entity sells a loan but retains the servicing of that loan at a fee which is lower than a normal fee for such services, part of the sales price of the loan is deferred and recognized as revenue as the servicing is provided.

(ii) *Commitment fees to originate or purchase a loan*
If it is unlikely that a specific lending arrangement will be entered into, the commitment fee is recognized as revenue on a time proportion basis over the commitment period.

(c) *Fees earned on the execution of a significant act, which is much more significant than any other act*
The fees are recognized as revenue when the significant act has been completed

11. *Admission fees*
Revenue from artistic performances, banquets and other special events is recognized when the event takes place. When a subscription to a number of events is sold, the fee is allocated to each event on a basis which reflects the extent to which services are performed at each event.

12. *Tuition fees*
Revenue is recognized over the period of instruction.

13. *Initiation, entrance and membership fees*
Revenue recognition depends on the nature of the services provided. If the fee permits only membership, and all other services or products are paid for separately, or if there is a separate annual subscription, the fee is recognized as revenue when no significant uncertainty as to its collectability exists. If the fee entitles the member to services or publications to be provided during the membership period or to purchase goods or services at prices lower than those charged to non-members, it is recognized on a basis that reflects the timing, nature and value of the benefits provided.

14. *Franchise or concession fees*
Franchise or concession fees may cover the supply of initial and subsequent services, equipment and other tangible assets, and know-how. Accordingly, franchise or concession fees are recognized as revenue on a basis that reflects the purpose for which the fees were charged. The following methods of franchise or concession fee recognition are appropriate:

(a) Supplies of equipment and other tangible assets
The amount, based on the fair value of the assets sold, is recognized as revenue when the items are delivered or title passes.

(b) Supplies of initial and subsequent services Fees for the provision of continuing services, whether part of the initial fee or a separate fee, are recognized as revenue as the services are rendered. When the separate fee does not cover the cost of continuing services together with a reasonable return, part of the initial fee, sufficient to cover the costs of continuing services and to provide a reasonable return on those services is deferred and recognized as revenue as the services are rendered.

(c) *Continuing franchise or concession fees*
Fees charged for the use of continuing rights granted by the agreement, or for other services provided during the period of the agreement, are recognized as revenue as the services are provided or the rights used.

(d) *Agency transactions*
Transactions may take place between the franchisor and the franchisee which, in substance, involve the franchisor acting as agent for the franchisee. For example, the franchisor may order supplies and arrange for their delivery to the franchisee at no return. Such transactions do not give rise to revenue.

15. *Fees from the development of customized software*
Fees from the development of customized software are recognized as revenue by reference to the stage of completion of the development, including completion of services provided for post delivery service support.

Sale of Goods

16. “Bill and hold” sales, in which delivery is delayed at the purchaser’s request but the purchaser takes title and accepts billing Revenue is recognized when the purchaser takes title, provided:

(a) It is probable that delivery will be made;
(b) The item is on hand, identified and ready for delivery to the purchaser at the time the sale is recognized;
(c) The purchaser specifically acknowledges the deferred delivery instructions; and
(d) The usual payment terms apply.
Revenue is not recognized when there is simply an intention to acquire or manufacture the goods in time for delivery.

17. *Goods shipped subject to conditions*

(a) Installation and inspection
Revenue is normally recognized when the purchaser accepts delivery, and installation and inspection are complete. However, revenue is recognized immediately upon the purchaser’s acceptance of delivery when:

(i) The installation process is simple in nature; or

(ii) The inspection is performed only for purposes of final determination of contract prices.

(b) *On approval when the purchaser has negotiated a limited right of return*
If there is uncertainty about the possibility of return, revenue is recognized when the shipment has been formally accepted by the purchaser or the goods have been delivered and the time period for rejection has elapsed.

(c) *Consignment sales under which the recipient (purchaser) undertakes to sell the goods on behalf of the shipper (seller)*
Revenue is recognized by the shipper when the goods are sold by the recipient to a third party.

(d) *Cash on delivery sales*
Revenue is recognized when delivery is made and cash is received by the seller or its agent.

18. *Lay away sales under which the goods are delivered only when the purchaser makes the final payment in a series of installments*
Revenue from such sales is recognized when the goods are delivered. However, when experience indicates that most such sales are consummated, revenue may be recognized when a significant deposit is received provided the goods are on hand, identified and ready for delivery to the purchaser.

19. *Orders when payment (or partial payment) is received in advance of delivery for goods not presently held in inventory, for example, the goods are still to be manufactured or will be delivered directly to the customer from a third party*
Revenue is recognized when the goods are delivered to the purchaser.

20. *Sale and repurchase agreements (other than swap transactions) under which the seller concurrently agrees to repurchase the same goods at a later date, or when the seller has a call option to repurchase, or the purchaser has a put option to require the repurchase, by the seller, of the goods*

The terms of the agreement need to be analyzed to ascertain whether, in substance, the seller has transferred the risks and rewards of ownership to the purchaser and hence revenue is recognized. When the seller has retained the risks and rewards of ownership, even though legal title has been transferred, the transaction is a financing arrangement and does not give rise to revenue.

21. *Sales to intermediate parties, such as distributors, dealers or others for resale*

Revenue from such sales is generally recognized when the risks and rewards of ownership have passed. However, when the purchaser is acting, in substance, as an agent, the sale is treated as a consignment sale.

22. *Subscriptions to publications and similar items*

When the items involved are of similar value in each time period, revenue is recognized on a straight line basis over the period in which the items are dispatched. When the items vary in value from period to period, revenue is recognized on the basis of the sales value of the item dispatched in relation to the total estimated sales value of all items covered by the subscription.

23. *Installment sales, under which the consideration is receivable in installments*

Revenue attributable to the sales price, exclusive of interest, is recognized at the date of sale. The sale price is the present value of the consideration, determined by discounting the installments receivable at the imputed rate of interest. The interest element is recognized as revenue as it is earned, on a time proportion basis that takes into account the imputed rate of interest.

24. *Real estate sales*

Revenue is normally recognized when legal title passes to the purchaser. However, in some jurisdictions the equitable interest in a property may vest in the purchaser before legal title passes and therefore the risks and rewards of ownership have been transferred at that stage. In such cases, provided that the seller has no further substantial acts to complete under the contract, it may be appropriate to recognize revenue. In either case, if the seller is obliged to perform any significant acts after the transfer of the equitable and/or legal title, revenue is recognized as the acts are performed. An example is a building or other facility on which construction has not been completed.

In some cases, real estate may be sold with a degree of continuing involvement by the seller such that the risks and rewards of ownership have not been transferred. Examples are sale and repurchase agreements which include put and call options, and agreements whereby the seller guarantees occupancy of the property for a specified period, or guarantees a return on the purchaser's investment for a specified period. In such cases, the nature and extent of the seller's continuing involvement determines how the transaction is accounted for. It may be accounted for as a sale, or as a financing, leasing or some other profit sharing arrangement. If it is accounted for as a sale, the continuing involvement of the seller may delay the recognition of revenue.

A seller must also consider the means of payment and evidence of the purchaser's commitment to complete payment. For example, when the aggregate of the payments received, including the purchaser's initial down payment, or continuing payments by the purchaser, provide insufficient evidence of the purchaser's commitment to complete payment, revenue is recognized only to the extent cash is received.

Interest, Royalties and Dividends

25. *License fees and royalties*

Fees and royalties paid for the use of an entity's assets (such as trademarks, patents, software, music copyright, record masters and motion picture films) are normally recognized in accordance with the substance of the agreement.

As a practical matter, this may be on a straight line basis over the life of the agreement, for example, when a licensee has the right to use certain technology for a specified period of time.

An assignment of rights for a fixed fee or non refundable guarantee under a non cancelable contract which permits the licensee to exploit those rights freely and the licensor has no remaining obligations to perform is, in substance, a sale. An example is a licensing agreement for the use of software when the licensor has no obligations subsequent to delivery.

Another example is the granting of rights to exhibit a motion picture film in markets where the licensor has no control over the distributor and expects to receive no further revenues from the box office receipts. In such cases, revenue is recognized at the time of sale.

In some cases, whether or not a license fee or royalty will be received is contingent on the occurrence of a future event. In such cases, revenue is recognized only when it is probable that the fee or royalty will be received, which is normally when the event has occurred.

8.5 End of Chapter Summary

In this chapter, you studied in detail how the government gets its revenues mainly from tax revenues; not tax revenues and loans and grants. You also looked at the collection and custody of tax and non tax revenues, accounting for revenues and the appropriate internal controls to safe guard them.

Sample Questions

1. Explain the differences between revenue and receipts in the public sector.
2. Briefly explain the main sources of government revenue.
3. Discuss the internal controls regarding the collection of government revenues.

4. Write short notes on the following sources of government revenue:
   i. Tax Revenue;
   ii. No-tax revenue;
   iii. Grants; and
   iv. Interest, Royalties and Dividends.

Chapter 9

EXPENDITURE MANAGEMENT

9.1 Introduction

This chapter looks at tools for expenditure management and control, payment management relating to general expenditures, salaries and pensions; commitment management and internal controls.

9.2 Learning Objectives

By the end of this chapter, students should be able to:

a. Discuss the various types of controls over Government expenditure and the institutions and departments that play very big roles to ensure that there is compliance to the controls established.
b. Prepare, check, authorise, and approve or counter sign any payment to suppliers, contractors, employees, pensioners, and consultants.
c. Explain the processes of preparing salaries and pensions and **the c**ontrols that have to be in place.
d. Discuss the internal controls over general expenditures, salaries, and pensions.

9.3 Expenditure Management and Control

Expenditure on revenue account falls into two categories:-

(i) Statutory Expenditure; and
(ii) Voted Expenditure.

Statutory Expenditure is expenditure charged on the Consolidated Fund in terms of Section 172 of the new Constitution of Malawi. It is not subject to annual vote of the National Assembly.

Statutory Expenditure is classified under four Heads: 001 to 004

(i) 001 – President's salary,
(ii) 002 – Miscellaneous Statutory Expenditure,
(iii) 003 - Pensions and Gratuities,
(iv) 004 – Public Debt charges.

Expenditure control could be defined as the strings of coordinated actions which have to be taken to ensure that Control over expenditure shall be exercised with three objectives: -

a. To ensure that expenditure conforms to the purpose and financial limits as set out in the approved estimates.

b. To ensure that expenditure is incurred with due regard to economy and efficiency.
c. To enable action to be taken in time to correct any adverse trends revealed during the year.

The following are the basic or primary controls exercised over government expenditures:

a) The Legislative control;
b) The Executive control;
c) The Ministry of Finance;
d) The Accountant General;
e) National Audit Office;
f) The Internal Audit Office Unit;
g) The Controlling Officers; and
h) Public Accounts Committee.

9.3.1 The Legislative Control

The National Assembly is the Supreme Authority on matters of the Nations finance. The control over government expenditure is exercised by National Assembly when members of Parliament approve the budget estimates by passing the Annual Appropriation Bill on Revenue and Development Accounts. No funds can be withdrawn from Consolidated Fund until there is legislative authority which is granted by passing the Annual Appropriation Bill by members of Parliament and when it has been approved by the President, the Appropriation Bill becomes the Appropriation Act. In other words no amount of public funds may be spent without approval of National Assembly.

The National Assembly has control over government expenditure though it's Committee of Parliament, the Public Accounts Committee which examines the report of the Auditor General and calls Controlling Officers to explain before the Committee of Parliament.

9.3.2 The Executive Control

The Executive comprises the President and cabinet members who have the responsibility for the efficient and effective control of the administration of the country politically and economically. The other two arms of government, the legislative and judiciary are responsible for checks and balances. All measures and policies taken by the President are subject to approval of the Legislature within the ambit of the constitution. The President through the Minister of Finance shall cause to be prepared and laid before Parliament before the start of the new financial year estimates of revenue and expenditure of the country for the following financial year.

The President, in order to satisfy the provisions of the Constitution also appoints a Cabinet Committee on Estimates, to advise him on the contemplated policy measures. The policy measures contemplated are then transmitted to the Budget Department of the Ministry of Finance. This development in turn leads to the issuance of guidelines on the budget preparation of the Budget operation. Any Unit of Government whose requirements are higher than the "control figures" ,"budget ceilings" already issued, is invited to Ministry of Finance to defend the excess budget request.

9.3.3 Ministry of Finance Control

According to Public Finance Management Act, of 2003 Section3, Subsection 1, item b), the Minister of Finance is responsible to the Cabinet and to National Assembly for ensuring that adequate procedures, Internal Controls and guidelines exit for use of public money and public resources Public Finance Management Act, of 2003, Section 4, the Minister of Finance has the following specific responsibilities:

a) The formulation of economic and fiscal policy of the Government of Malawi, and for the financial management of ongoing operational activities, both annually and for such longer periods as he considers appropriate, specifying agreed policies, outcomes and outputs to be achieved, and taking into account the views of prior policy consultations.
b) The preparation of the annual draft Estimates and such other Estimates as may be necessary and overseeing their implementation on behalf of the Government
c) The supervision of the finances, assets and liabilities of the State so as to ensure that a full accounting is made to the National Assembly of all transactions involving public moneys or the disposition of public resources.
d) The oversight of the finances of statutory bodies ; and
e) The publication in the Gazette and by whatever other means he considers appropriate, of information as to economic plans and projects approved by National Assembly or Government and the progress made in their implementation.

9.3.4 Controls by Warrants

Although the Estimates and Appropriation Acts guide the disbursement of public funds, the release of money is subject to issuance of relevant Warrants by the Minister of Finance for the expenditure. The Warrant authorises the Secretary to the Treasury, through the Budget Director to release funds from the Consolidated Revenue Fund or Development Fund. The system of Warrant gives the Executive greater control over the issuance of funds than would be offered by a system which relies solely on the provisions of the Appropriation Acts.

9.3.5 The Accountant General

The Accountant General has overall responsibility for the total expenditure of Government. His office would keep necessary books of accounts to record all the receipts and expenditure of the various Ministries, Departments and Agencies.

Officers from the Accountant General carry out supervisory visits to various Ministries, Departments and Agencies to evaluate the system of internal controls. They do this to ensure that the accounting system and maintenance of various books of accounts conform to the approved regulations and procedures. This is another aspect of controls exercised by the Accountant Generals Office.

9.3.6 The Internal Audit Unit

This is another aspect of control exercised in any organisation. Internal Auditors either resident in Ministries, Departments or Agencies or are from the Central Internal Audit Unit based at OPC Headquarters visit various Ministries, Departments and Agencies to appraise the effectiveness of the existing internal controls and internal checks and report upon any inadequacy discovered.

9.3.7 Departmental Control over the Budgeted Expenditure

Control of Expenditure through maintenance of Departmental Vote Book, (Votes Ledger),-GP114 and GP 113 Commitments Ledger). The Votes Ledger is a record of payments made and liabilities incurred under the Votes or Funds approved for each Ministry, Department or Agency. A Vote Book is maintained for each Head or Subhead of expenditure. It is integral part of Budgetary Control System. The Book is designed to facilitate vote watching to ensure that expenditure incurred are not in excess of appropriation. Over-expenditure of departmental vote amounts to reckless use of public funds and is seriously frowned at by Government.

Control is enhanced when the manual votes ledger is reconciled to the computer produced tabulations and differences investigated without delay, payments or charges which appear in the tabulations produced by the Accountant General not in the Votes Ledger (Vote Book) particularly with a view to the prevention and detection of fraudulent payments.

9.3.8 Public Accounts Committee

This is a committee of Parliament, the purpose of which is to expose waste, corruption, or inefficiency in handling of public funds or projects. It is empowered to examine the audited accounts of the Government and those of public offices as well as the Auditor General's report thereon.

9.4 Payment Management Relating to General Expenditures

9.4.1 General provisions of regulations and treasury instructions

a) Before a payment voucher is raised there shall be the following:-

i. Authority for payment: This shall be either standing authority in terms of the Treasury Instructions or Malawi Public Service Regulations (MPSR) or specific authority issued by Treasury, Office of the Director of Public Procurement (ODPP), and Internal Procurement Committee (IPC);
ii. Provision of Funds: Funds shall be available under the relevant item /sub-item of the Vote/Head to be charged. This is availability of

provision to avoid over expenditure. But at the same time there must be availability of actual funding to avoid issuing cheques when there is no funding to cover the payment;

iii. Proof of Receipt of goods or services: Goods or services shall be certified to have been received by an authorized receiving officer through delivery note dully signed by the stores officer or completion certificate;

iv. Suppliers invoice in original form, progress Certificate from the contractor, consultant fee note; and

v. A copy of local purchase order or a copy of a valid contract.

b) The allocation on the voucher shall be in line with the approved Chart of Accounts.

c) Each voucher shall first be checked before it is either entered in the appropriate ledger e.g. Vote book and Commitment Register where applicable or the below the line ledger, before it is passed for payment. If payment is made through the Central Government IFMIS, the payment is checked for correctness before the first and second approval is done.

d) Only authorizing officer with appropriate financial delegation shall approve vouchers. An officer shall not authorize or pass for payment vouchers made payable to himself. If approval is done in Central Government IFMIS, authorizing officers are given access rights by the Accountant General for both first and second approval. There are given also given authorizing limits.

e) Payments shall be made as soon as possible after the invoice or claims are received subject to availability of funds.

f) Payment Vouchers shall be submitted to the Cash Office within reasonable time of at-least 24 hours before payment is required to allow checking. In case of the payment vouchers processed in Central Government IFMIS, payment voucher list supported by payment are submitted to the Accountant General Central Payment Office to issue cheques. At the Accountant General before cheques are printed payment voucher list are subjected to Internal Auditors check.

g) All payments above K500,000.00 have to be passed for payment by the Internal Auditors

9.4.2 General Instruction for Preparing Payment Vouchers

Payment Vouchers shall be prepared on a prescribed form in ballpoint pen or computer generated.

Vouchers shall be complete in themselves and shall contain: -

(i) Name and full address of the payee;

(ii) Full details of goods or services, quantities, rate, total amount payable, deductions and net amount to be paid. Where necessary use the reverse side of the voucher. After the last item in amount column, a line shall be drawn diagonally to prevent unauthorized additions;

(iii) Reference to MPSR, IPC and ODPP authority shall be quoted on the voucher;

(iv) In case of refunds, the original receipt issued shall be attached to the voucher and where the original is not available; an authorized officer shall certify the copy. Refunds shall be approved by a responsible official, to avoid abuse by endorsing on the request for refund;

(v) Names of the officers compiling the voucher, checking it, entering in the ledger, authorizing and countersigning shall be printed on the original copy and all copies of the voucher; and

(vi) All supporting documents shall be attached to original copy of the voucher.

9.4.3 Posting Block

The posting block on the voucher shall show:-

(i) The account code in full. Where necessary insert "000" to complete the digit code;

(ii) Vouchers shall be numbered consecutively starting afresh each financial year. A register of vouchers shall be maintained to allot voucher numbers;

(iii) The gross amount payable shall be indicated on the allocation line for capturing into the national accounts; and

(iv) The posting block contains a number of debits; each entry shall have its own line to prevent misreading.

9.4.5 Signature

Vouchers shall be signed in full (not initials) by the officers compiling it, entering it in the Vote Book, the authorizing officer and the counter-signing officers. The authorizing officer shall also check and initial the vote book before signing the voucher.

9.4.6 Payee

Vouchers shall be payable only to the person to whom payment is due except:-

(i) Where cash is to be withdrawn to pay a number of persons, the voucher shall be payable to the officer drawing the cash. His name and designation shall be given. No payment advice is required. Names of beneficiaries and the amount shall be shown; and

(ii) Where an officer requires payment to his bank account, the voucher shall be made payable to the bank indicating the officer's account to be credited.

9.5 Payment Management relating to Salaries and Pension

9.5.1 Payroll procedures and operating instructions

Introduction

The Payroll in respect of all government employees is processed through automated payroll system.

The basic data concerning employees' identification, salary, allowances, deductions, pay points etc is fed into the payroll system through input documents, which are prepared manually. Similarly, changes in basic pay, allowances, deductions, pay points, etc, have to be advised to the computer through input document for modifying the basic data recorded on the salary file. It is important that input documents (GP 27) shall be prepared carefully. Since the Salaries Pay Roll is produced by the computer by the 15th of the month, the input documents advising changes in salary, allowances, deductions, pay point shall be sent to Processing Centre before the 5th of the month.

9.5.2 Computer Numbers

9.5.2.1 Allotment of new codes

Where a Ministry/Department needs a new code number, complete details of the allowances, deduction or pay point shall be submitted to Accountant General, who shall allot the new code number. The information submitted shall include section number, department number, pay point and vote of charge.

In order to facilitate processing of data through the computer, numeric codes have been allocated for different types of information required for preparing the salaries pay roll. The following computer codes are currently in use for an Officer:

DESCRIPTION	ACCOUNT CODE
Ministry	271
Department	271
Cost Centre	01
Programme/	15
Sub programme	24
Profession of the officer /employee	P24 11 – 0100 (**P** shall identify the officer/employee's profession.)
Identification number	000000 Unique identification number of an officer

The full Employee Number shall be: 271 - 271 - 01 - 15 - 24 - P24 - 11 – 0100 – 00000.

9.5.2.2 Advising data changes to the computer

For any change required in the computer payroll, it is necessary that the full particulars of the change are recorded on GP 27. Changes required to be made in the computer payroll shall normally fall in one of the following two categories:-

(i) Introduction of an Employee on Payroll

This becomes necessary on the occasion of first payment of salary on fresh appointment, posting or transfer from another department.
The employee's particulars shall be inserted in the computer salary file. This action is termed as introduction and is indicated by the computer code "0".

(ii) Change of an Existing Entry in the Payroll

This becomes necessary where the amount of salary, allowances, deductions or pay point have to be altered. Any alteration involves two steps:

(a) Deleting the existing entry from the computer salary file; and
(b) Inserting the new entry required.

Deletion of an existing entry becomes necessary when payments or deductions have to be stopped e.g. in the event of retirement, dismissal or transfer of employee or when deductions for recovery of advances or house rent have to be discontinued.

Deletions are made on **Delete Sheets** and Insertion of new entries on **Salary Change Sheets**. These are the two basic input documents submitted to the Salaries section by the fifth of each month.

9.5.2.3 Sources of information for data changes

The main sources of information for data changes are Earnings Record Card and Correspondence Information.

9.5.2.4 Earnings Record Card

(i) This is a record maintained in the Salaries Section giving complete particulars of each employee from the date of his first appointment or transfer to the department until his exit from the Government on retirement or transfer;
(ii) The Earnings Record Card contains complete details regarding the employees' name, grade, date of appointment/transfer, basic salary,

allowances, advances paid, number and amount of instalments for recovery of advances, other deductions, such as house rent, tax etc;

(iii) These cards shall be reviewed monthly and any changes required to be made in the next month's payroll shall be noted in a salary change slip; and

(iv) A separate Slip shall be prepared for each employee. Salary Change Sheet are the basis for incorporating changes in the input documents sent to the Salaries Section as shown in paragraph **5.0.**

9.5.2.5 Information through Correspondence

Information regarding salary changes may also come in through correspondence:

(i) From employees e.g. requests in changes in pay points, errors in deductions;

(ii) From other departments e.g. recovery of telephone charges, house rent; and

(iii) The Personnel Section through minutes recorded on files regarding certain changes such as adjustment of salary advances.

These changes shall also be noted on Salary change sheets as soon as information is received in the salaries section.

9.5.2.6 Changes Arising After the 5th of the Month

(i) As input documents for salary changes are sent to the Salaries Section by the fifth of each month, only salary changes advised before that date can be incorporated in the input documents;

(ii) The computer prints the payroll by the 15^{th} of the month. As such, changes arising after the fifth of the month have to be incorporated directly in the payroll printed by the computer in order to ensure correct payment to the employees; and

(iii) Examples of such changes, which come to light after the fifth of the month, include requests for changes in pay points, discontinuance of salary or allowances, changes in deductions, errors in computer printouts. A note of such changes has to be kept in a separate Register of Payroll Changes.

9.6 Preparation of input documents for data change

Data changes can be changed in two ways: -

(i) by inserting changes required in salary change sheets; or

(ii) by deleting entries on delete sheets.

Salary Change Sheets

This is the basic form for insertion of data in the computer salary file. Salary Change Sheets are prepared in duplicate on Form GP27 (Annexure I). As all changes shall be advised to the computer by the fifth of the month, preparation of

Salary Change sheets for the next month shall commence as soon as work on the payroll for the current month is completed. Entries in Salary Change Sheets are explained below: -

Column 1

Type of change:

The digits **"023"** shall be used as follows:

(i) For introducing an officer to the payroll for the first time (now done by the Department of Human Resource Management and Development);
(ii) When officers allowances are being introduced these include basic pay and all other entries that will not come with a minus; and
(iii) When introducing deductions on the officer's salary, for example tax, advances and overpayments.

Column 2

Identification

Indicate the officer's particulars. This column shall identify the following details:-

(i) Name of the officer; and
(ii) Employee number.

Column 3

Salary and Allowance or Deduction Code	Enter the code for which the deduction or allowance is to be effected. For example, 0001 for basic pay, 0500 for tax or 0627 for NICO insurance

Column 4

Pay Point Code	Enter the office where the officer shall be getting the salary. For example; 090 for National Bank Capital City Branch or120 for bearers' cheques

When the officer is being introduced for the first time, the entries will end at **Column 4**. The introduction of an officer on the pay roll is done by the Department of Human Resource Management and Development. This means that in Column 1, type-"0" shall not be used by the salaries officers.

Column 5
<u>Salary and Allowances</u>

Recurring	Enter amounts those are recurring for basic pay or any allowance. Do not put any sign on the "**sign**" column
Non – Recurring	Enter amounts that are one-off transactions. Such amounts shall not be preceded by any sign on the "**sign**" column.

Column 6
<u>Deduction</u>

Recurring	Enter all types of deductions as follows:- Enter the deduction code that will run for more than one month e.g. advance, insurance or overpayment recovery.
Non-Recurring	Enter the deduction code for one-off transactions.

Column 7
<u>Recurring Code (Circle One)</u>

R N/R	Enter the code that shall confirm the expression filled at Column "5" or"6". This shall confirm that the entry is recurring if **'0'** is circled or non-recurring if **'2'** is circled.

Column 8

<u>REMARKS</u>	Confirm the entry made on the particular line in words, e.g. if the entry is an advance write 'Emergency advance'; if it is Insurance, write 'Insurance Advance'.

COLUMN 9

<u>Sheets Totals</u>	Add totals on each amount column and show them at the end of each page. Totals with a minus sign must be clearly shown.

Item 10-24 below shall be filled as follows:

Item 10

<u>Date</u>	Enter the date on which the Change Sheet is being completed.

Item 11
Changes for

Enter the months in which the change is being effected for in the system.

Item 12
Salary Number

Enter the number of salary which is being paid in the financial year.
The salary month shall always start from number one when the financial year begins in July every year e.g. Salary: No. 1 July
No. 2 August
No. 6 December

Item 13
Action (tick one)

Enter the type of change being effected. For example, tick the “insert in salary file “box if the change is against an insertion on to a salary, or tick “delete from salary file” box if the change is a deletion or if the officer has completed a certain type of deduction.

Item 14
Section Number

Enter the number to which the officers on the Change Sheet refers to. Officers of similar grades shall appear on one section e.g. Section ………… Accountant General's Department Senior staff.

Item 15
Section Name

Enter the name of the section to which the Change Sheet refers e.g. Senior Staff.

Item 16
Pay Officer

Enter the name of the officer who shall be responsible for any queries should any problems occur regarding the changes. E.g. this shall be the officer compiling the Change Sheet.

Item 17
Scheduled by name

Enter the name of the Officer responsible for checking the change sheet. This shall be a different officer other than the compiler.

Item 18
Title

Enter the designation and name of the officer checking the change sheet.

Item 19
Signature of Checking Officer

The officer checking the changes must append his signature on the change sheet in the column provided.

Item 20
Date

The officer who has checked the changes shall also indicate the date on which he has checked the change sheet.

Item 21
Authorized by Name

The Head of the Human Resource Office in the Ministry/Department shall sign the Change Sheet to authenticate the various changes to be effected in a particular month. (Since he is representing the DHRMD, who is the employer of the officer).

Item 22
Title

The officer at Item 21 shall provide his official title in the space provided.

Item 23
Signature of Controlling Officer

The officer who has authorized the Change Sheets shall append his signature on all copies of the Change Sheet at Item 23.

Item 24
Date

The authorizing officer shall indicate the date on which he has authorized changes to be effected.

The following points should be carefully noted when preparing Salary Change Sheets:

(i) A Separate Change Sheet shall be prepared for each section number, i.e. separate change sheets are required for senior staff salaries and junior staff salaries within a department.

(ii) Care should be taken to ensure that the employees' number is correctly entered. Any error in the employee's number can result in payment or deduction to wrong person;

(iii) It is important that the Sign Column shall be correctly entered. If the **(-)** sign is not entered, the computer shall not make the deductions. Although all allowances are debits and all deductions are credits, in some cases this is not so.

(a) For example a refund of an over recovery on an advance account or an over deduction of house rent shall have the relevant deduction code but the amount shall be a debit i.e. an addition to the officer's salary; and

(b) Similarly, recovery from an allowance shall carry an allowance code but the amount shall be a credit i.e. a deduction from the officer's salary. It is therefore important that the addition of the amounts in the respective columns is done correctly taking the sign into account.

(iv) Totals of amount columns shall be carefully costed and carried to the next page.

Delete Sheet

(i) The Delete Sheet is a monthly statement printed by the computer listing all recurring allowances and deductions for each employee as the computer salary file at the end of the previous month. It is used for deleting data while preparing salaries for the next month. Non-Recurring allowances and deductions are not included on the Delete Sheet. Delete Sheets are received in duplicate from processing centre by 15th of the month. After making deletions, one copy is returned to processing centre along with Salary Change Sheets by 5th of the following month.

(ii) The procedure is as follows:

(a) On receipt of the Delete Sheet review the Salary Change Slips in the folder and underline in red ink entries required to be deleted;

(b) Indicate code (2) for salary and allowances, and (3) for deduction against each entry deleted;

(c) After all deletions have been made strike totals of the amounts deleted separately for allowances and deductions;

(d) Post totals of Allowances and Deductions deleted in the Payroll Balance Sheet; and

(e) The Delete Sheet can be used only for making changes advised before the 5th of the month. Since manual changes are disallowed, any advices for deletion received after the 5th shall be taken on board during next month's payroll.

9.8 First Appointment

This requires introduction of the employee's particulars and salary details in the computer file. Circle code (0) for introduction in column 8 and enter Identification details in column 9 and 14 on the salary change sheet. Also, enter pay –point code in column 11. Employee's number is allotted by the DHRMD.

9.8.1 Changes of Basic Pay on Promotion

8.1.1 When an officer is promoted, details of allowances and deductions shall be altered.

8.1.2 Delete the existing salary and deductions on the Delete Sheet and then insert the new salary and deductions in the Salary Change Sheet.

8.1.3 Where information regarding promotion or increment is received after the Change Sheets have been submitted to processing centre, the change can be introduced in the next month and salary arrears paid after approval from the Accountant General.

9.8.2 Payment of Arrears of Salary

Arrears of Salary are only paid through the computer payroll by using column 12 and 13 (Non-Recurring) in the Salary Change Sheet. Where arrears of salary have to be paid due to promotion, omission, underpayment, incremental credits or re-instatement, the Ministry/Department shall submit computed arrears of salary with a covering letter to Accountant General's Department seeking authority to pay the arrears.

9.8.3 Termination of Service/Interdiction

When an officer's service is terminated or salary is stopped before salary changes are submitted to Processing Centre, delete all entries pertaining to the officer on the Delete Sheet. If an officer is interdicted on no pay, his basic pay, deductions shall be deleted, and where the interdiction is on half pay, the basic pay shall be halved.
If Salary Changes for the month have been submitted to processing centre, keep a note on Salary Change Sheets and delete the salary when the Payroll is received from the processing centre.
Apply for approval from DHRMD to pay the departing officer on payment voucher (GP 10). The pay shall be charged direct to the vote if approval is received from DHRMD to pay the officer on GP10.
Pay the departing officer for part of the month on GP.10 and allocate direct to the vote. Delete the officer on the Delete Sheet in the next month.

9.8.4 UnPaid Leave

When an employee proceeds on unpaid leave, delete entries for allowances and deductions on the Delete Sheet. Do not delete the name record and pay-point.
In case salary changes have been submitted, keep a note on a Change Sheet for deleting the salary on the payroll.

9.8.5 Change in Pay out

When changes in pay-point are advised before the Salary Change Sheets are submitted, delete the existing pay-point on the Delete Sheet and insert the new pay-point on the Change Sheet.
Where changes arise after the Delete Sheets/Change Sheets have been submitted keep a note on a Change Sheet.

9.8.6 Posting to another department

When an officer is posted from one ministry/department to another during the course of the month, salary for the month shall be paid by the old ministry/department in the usual manner. Thereafter, the officer shall be deleted on the Delete Sheet sent to processing centre with salary changes for the next month.

If the officer comes on transfer from another department, introduce him on the Salary Change Sheet in the same manner as above, except that his employment

number shall be obtained from Last Pay Certificate of the officer. Ensure that the employee's number is correctly entered on the Salary Change Sheet. If the Officer is appointed after the 4th of the month, (i.e. after submission of Change Sheets) to processing centre, the Accountant General shall pay this officer's salary in the following month as arrears of salary after approval.
In the following month, the new department shall pay the officer by introducing him/her on the Salary Change Sheet in the usual manner.

9.8.6 Payroll Balance Sheet

After all changes in Salary Change Sheets and Delete Sheets have been made each Pay Officer prepares a Payroll Balance Sheet in the form given in Annexure II. A separate Balance Sheet is prepared for each Section.

The purposes of preparing the Payroll Balance Sheet are:-

(i) To cross check that all changes advised through the Salary Change Sheets and Delete Sheets have been done correctly.
(ii) To establish the total of Recurring Allowances and Deductions which shall equal the closing balance on the Delete Sheet of the current month.
(iii) In preparing the Payroll Balance Sheet, changes of existing allowances and deductions are shown as "OFFs" and "ONs". **OFFs** are Allowances/Deductions deleted from Delete Sheet, and **ONs** are Allowances/Deductions inserted on the Salary Change Sheets. The OFFs and ONs are separately totalled and posted in the Balance Sheet.

9.8.7 Procedure for Preparing Payroll Balance

(i) **Posting OFFS**: Post totals of Allowances and Deductions deleted on Delete Sheets to OFFs Allowances (Column 1) and OFFs deductions (Column 2) respectively in the Payroll Balance Sheet.
(ii) Post totals of Allowances (Non-Recurring) and Deduction (Non-Recurring) from Salary Change Sheets to Non-Recurring allowances (Column5) and Deduction (Column 6)
(iii) **Opening Balance**:
   (a) *Allowances:* Enter closing balance of Allowances appearing on the Delete sheet; and
   (b) *Deductions:* Enter closing balance of Deductions appearing on the Delete Sheet.

(iv) **Closing Balance**: Arrive at the Closing Balance by using the formula; and

(v) Closing Balance Deductions = Opening Balance (Deductions)
ADD ONs Deductions (column 4)
LESS OFFs Deductions (Column 2).

This shall equal the closing balance on the Delete Sheets for the current month.

(vi) **End Balance**:
End Balance Allowance = Closing Balance (Allowances)
ADD Non-Recurring Allowances (Column5).

End Balance (Allowances) **Less** End Balance (Deductions) shall **equal:**
Net pay as shown in the current month's Pay-point Analysis **ADD** Total tax deductions on the Tax Returns received from the processing
End Balance Deductions=Closing Balance (Deductions) **Less** Non-Recurring Deductions (Column 6) Net Pay:

(vii) The Payroll Balance Sheet shall be signed by the Pay officer and checked by the salaries officer and sent to processing centre along with the Salary Change Sheets and delete Sheets for the month.

9.9 Operational Control Procedures

9.9.1 General

The monthly salary changes advised by Salaries Officers are processed by the processing centre in each ministry and computer print outs received in the Salary Offices by 15th of the month.

The print outs are the basis for:-

(i) Preparing salary cheques;
(ii) Posting accounting records to Advances Cards and Votes Ledger; and
(iii) Providing input Data for the National Accounts system.

9.9.2 Printouts Received in Salaries Offices

The following print outs are received in the Salaries Offices every month:

(i) Pay Slips;
(ii) Bank Deposit Slips;
(iii) Pay-Point Analysis;
(iv) Allowance Analysis;
(v) Deduction Analysis;
(vi) GA 01 Accounts Input;
(vii) Income Tax Return;
(viii) Payroll Audit List;
(ix) Delete Sheet;
(x) Parameter File Listing; and
(xi) GP 5A (See Annexure III).

9.9.3 Checking Computer Print Out in the Salaries Offices

a. Pay Slip

A pay slip is a print out of monthly payment due to each employee showing basic pay, deductions and net amount payable. Before distribution to the employees, pay slips shall be carefully checked and any obvious errors or omissions corrected. Corrections shall also be made in the other print out in order to ensure that pay cheques are issued for correct amount and all corrections reflected in the National Accounts.

b. Errors on Pay Slips

Common types of errors found on pay slips and the corrective action required are indicated below: -

i. Two basic Pays Shown on Pay Slip
This can happen if there was an omission to delete the old basic pay on the Delete Sheets, when an officer's salary is revised when promoted or there is a promotion or there is a salary increment.

Corrective action required is as follows:

1. Check if the basic pay was deleted on the Delete Sheet.
2. If not delete the relevant entries.
3. Other print-outs to be amended include; Pay-point Analysis, Allowances Analysis, Deduction Analysis, Tax Return and GA 01.

i. Double deductions on pay slips

This occurs if there is an error in the Salary Change Sheet or omission to delete a deduction on the Delete Sheet. Corrective action required is as follows:-

1. Check the Salary Change Sheet and Delete Sheets to ascertain the cause of the error. Delete the incorrect deductions from the Delete Sheet to ensure that the mistake does not persist in the next month's pay.
2. Other print out to be amended: Pay-point analysis, Deduction Analysis and GA-01.

ii. Double deductions of taxes

This shall be corrected on the pay slip only if the double deduction has arisen from an error in the Change Sheets.
The officer shall be advised to approach the Malawi Revenue Authority for a refund.

Other print-outs to be amended: Pay-point analysis, Deduction Analysis, Tax Return and GA-01.

c. **Pay point Analysis:**

The Pay point Analysis shows the net pay in respect of each employee arranged in the sequence of pay –point codes. This in effect, is the monthly payroll and is the basic document used for issuing cheques. Before this document is passed on to, the Cash Office for issuing cheques it shall be thoroughly checked and passed by the Salaries Officer and countersigned by Head of Human Resources Management Office.

The following guidelines shall be kept in view in checking the Pay point Analysis:-

(a) Underline entries corrected on the Pay-point Analysis and indicate the nature of correction by suitable annotation

(b) If basic pay is deleted or reduced, write the words "Amend Total (Cr)" against it indicating the vote to be credited.

(c) If deduction on the pay slip is deleted, write the words "Amend Total (Dr.)" against the corresponding entry on the Pay point Analysis indicating the account to be debited.

(d) In case a new deduction has been made on the pay slip, it shall reduce the net pay. Write in the words "Amend Total (Cr.)" against the corresponding entry on the Pay Point Analysis indicating the amount and the head/vote of account to be credited.

(e) Change in Pay-Points: Requests for changes in pay-points received after the 5th of the month are noted on Salary Change Slips. Carry out the changes on the Pay-Point Analysis by deleting the net pay under the old pay –point and entering it under the new pay-point. Recast the totals of the pay-points affected.

(f) In case change in pay –points involves change in salaries credited to bank accounts of officers, make necessary changes on the bank deposit slips pertaining to the banks concerned.

(g) Balancing the Pay-Points Analysis: This is done as follows:

1. Total all net pays as corrected on the pay point Analysis; and
2. Total separately amounts marked "Amend Total (Dr.)" and Amend Total (Cr.).

(h) Prove arithmetical accuracy by using the formula:

Total Net Pay (Amend) = Original Total Net Pay
LESS Amend Totals (Cr.)
ADD Amend Total (Dr).

9.10 New Developments in Processing Salaries.

Salaries are now processed in IFMIS, for each cost centre, GP 32 is prepared, which is the basis for the accounts office to process payment vouchers in IFMIS to different pay points, banks because employees are paid through the banks.

Cheques were centrally issued by the Accountant General .Now salary payments to banks are made through electronic funds transfers from the Accountant General to Reserve Bank of Malawi and from Reserve Bank of Malawi to commercial banks. Each Ministry Department or Agency, submits a voucher list to the Accountant General for salary payments supported by copies of payment vouchers payable to each respective payees, a copy of GPS that details individual employee and the bank the salary must go. Note that all these documents are also processed through the computer.

9.10.1 Payment Management Relating to Pension

Pension payments

Introduction

Terminal benefits are payments made to government employees or their beneficiaries on occasions such as:

(i) at normal retirement;
(ii) retirement in public interest;
(iii) retirement on health grounds or death;
(iv) redundancy; and
(v) abolition of office.

These are paid as lump sum or monthly pension

NORMAL RETIREMENT BENEFITS

When a civil servant retires he/she is entitled to be paid a full pension every month after the date of retirement. He/she may also opt to commute his/her pension into a lump sum up to 25% of the Full in which case the monthly pension shall be reduced.

Pension

a) This is a regular payment made to an employee who has retired from service. Pension is payable to officers who are employed on pensionable terms. A civil servant qualifies for pension benefits after meeting the following conditions:
   i. The officer is 60 years old or has served for 20 years. In the case of Malawi Police Service and Malawi Defence Force the service required is 25 years and 7 years respectively;
   ii. The officer is 10 years of service and has attained 60 years of age;
   iii. The officer retires on medical grounds after being in service for not less than 10 years;
   iv. The officer retires in public interest after being in service for not less than 10 years;
   v. The Office may retire as a result of his post being abolished; and

vi. Industrial class employee who has served for 10 years and has opted to be on permanent terms.

b) When an officer wishes to retire on any of the six circumstances specified above, he/she shall complete Form GP 15 (PSR 36) **(see Annexure I)** for the approval of his/her responsible officer.

c) In respect of Malawi Defence Force, Form AF 160, **(see Annexure VIII)** is used. The responsible officer shall also attach to form GP 15 (PSR 36) or AF 160, salary progression for each of the 36 months up to the date of retirement. The progression is captured on the record of service card.

9.10.2 Calculation of pension

a. Full Pension

i. This is pension per annum before gratuity is paid. This is calculated as follows:

Full Pension = Pension Base x Years of Service x Accrual Rate.

ii. Where Pension Base is the average salary earned in the last 36 months prior to retirement and Accrual Rate is the percentage of pension that accrues every year during the service. For Grades A to H Accrual Rate is 2.2% or 0.022 and for Grades I to R is 2.5% or 0.025.

b. Reduced Pension

This is pension per annum minus gratuity paid (refer to section 2.2 below for definition of gratuity). The calculation is done just as full pension above and the gratuity is deducted from the figure obtained. Reduced pension per month is calculated by dividing reduced pension per annum by 12 as follows:

i. Full Pension = Pension Base x Years of Service x Accrual Rate;
ii. Reduced pension per annum = Full Pension – Gratuity portion; and
iii. Reduced pension per month = $\frac{\text{Full Pension – Gratuity Portion.}}{12}$

9.10.3 Procedures for processing pension on normal retirement

Most of the procedures will be automated when the Human Resource Management computerized system is in full operation:

a. When an officer retires, the Originating Ministry/Department shall take responsibility to submit the application for retirement to the Department of Human Resource Management and Development (DHRM&D). In order to do so, the Ministry shall ensure that they obtain the following:

   i. Application Form GP 15, (Form PSR 36) for retirement fully completed by the applicant;
   ii. Salary progression;
   iii. The last pay slip;
   iv. Copy of a letter of first appointment; and
   v. Promotional letter to the latest grade.

b. DHRM&D sends the application to the Accountant General's Department (pensions section) for computation of pension and gratuity.

c. Upon receipt of the application from DHRM&D, Pensions Section computes the pension on a prescribed form as per **Annexure II**. The form is dated, stamped and signed by the compiler.

d. Thereafter, an officer independent of the one who computed the pension checks the computation to confirm correctness of that computation.

e. The file containing forms shall be sent to National Audit Office for verification/pre audit of the computation.

f. After verification, National Audit Office shall send the documents back to DHRMD.

g. The DHRMD shall send the file to the originating Ministry to indicate outstanding loans with Government **(see Annexure III).** The loans shall be deducted from gratuity and if gratuity is not sufficient to cover the loan the monthly pension due to the officer shall be forfeited until the loan is fully recovered**.**

h. Before effecting payment, Accountant General shall check that :

   i. All the required information is provided in the application form for retirement.
   ii. All the supporting documents accompanying the application are attached.
   iii. All the information is correct and complete and that DRHM&D approved the application.
   iv. The Auditor General has signed and stamped the supporting documents.
   v. The originating Ministry has indicated outstanding loans with Government.

9.10.4 Payment of pension

(i) Payment of pension is authorized by the accountant general in accordance with the provisions of the MPSR and Treasury Instructions. Payment of monthly pension shall be done either on payroll or through the bank.

(ii) Payment of monthly pension from treasury cashier or post office/agency shall be made upon presentation of valid pension warrants issued to the pensioner by the accountant general. Books of pension warrants normally cover a period of six months or such period that may be deemed necessary.

(iii) Payroll pensioners shall have the choice to draw their pensions from either:

(a) The Treasury Cashier's Office; or
(b) The Post Office

(iv) Where a pensioner chooses to draw pension from Treasury Cashier's Office or at the nearest Post Office/Postal Agency, the Accountant General's Department sends the following documents to the Treasury cashier or Post Office/Postal Agency:

1. Pension Book: This contains six monthly pension warrants and these are given to the pensioner.
2. Form 2: This is authority to the Treasury Cashier to accept pension warrants for payment. **(Annexure IV)**
3. Form 3: This is an acknowledgement to be signed by the pensioner on receipt of the Pension Book. **(Annexure V)**
4. Form 4: This is the Pensioner's Identity Certificate to be signed by the pensioner at the time of collecting the Pension Book from the Treasury Cashier/Post Office/Post agency. The identity must be stamped and signed by the Treasury Cashier before dispatching the Pension Book to the Pensioner **(Annexure VI).**

(v) On receipt of the documents the Treasury Cashier/Postmaster shall inform the pensioner to collect pension book in person. When the pensioner presents himself for collection of the pension book the Treasury Cashier/Postmaster shall proceed as follows:

1. Ask the pensioner to produce the application for terminal benefits (Form PSR.36) and pension computation form sent to him by the Accountant General (Pension section)
2. Check the pension amount on the pension warrants with the amount on pension computation form.
3. Ask the pensioner to sign Form 2. The Treasury Cashier must retain this form. In case the pensioner decides to receive pension from another station, the Treasury Cashier must send that form to the new station.
4. Obtain the pensioner's signature on Form 3. This form must be sent to the Accountant General (Pension Section).
5. Record the pensioners' identification marks e.g. birthmarks, scars or other identity features on Form 4. This form shall be signed or thump printed by the pensioner in the presence of a Treasury Cashier/Postmaster.

6. The Treasury Cashier/Postmaster shall verify the pensioner's signature or thump print with those on the pension Form 15 (PSR36) produced by the pensioner. Form 4 must be signed by the Treasury Cashier/Postmaster and handed over to the pensioner with the pension book. The pensioner shall produce an identity when drawing monthly pension.
7. After the Treasury Cashier is satisfied with the pensioner's identity. The pension book is given to the pensioner. After every six months the Pension Section of the Accountant General's Department shall sent a fresh Pension Book with Forms 2, 3 and 4. On each occasion Forms 2, 3, and 4 must be completed and signed personally by the pensioner. The pensioner's identity must be established by reference to the previous Form 4 before the Pension Book is handed over.

(vi) Pensions to Malawi Government pensioners are payable on or after 14th of the month on presentation of monthly pension warrants. Before paying the Treasury Cashier/ Post Master shall proceed as follows:

1. Check that all pension warrants are intact in the pension book and the pensioner has not signed warrants of subsequent months in advance.
2. See to it that the pension warrant is not stale. A pension warrant is valid for payment up to six months from the date of issue. Warrants presented after that date shall be returned to the Accountant General (Pension Section). The Accountant General shall issue a cheque for the stale pension warrant and send it to the Treasury Cashier/Postmaster who must hand it over to the pensioner after proper identification.
3. Detach the pension warrant from the Pension Book and obtain the signature of the pensioner in the space provided on the warrant.
4. Verify the pensioner's signature and identity marks by reference to those recorded on the Form 4.
5. Pay the net amount to the pensioner.

(vii) When a retired officer chooses to receive his/her monthly pension through the bank he/she indicates the details of the bank on Form 15 (Form PSR 36). In this case no pension warrants are issued to the pensioner. The Accountant General (Pension Section) sends the monthly pension into individual accounts of pensioners. Relevant details of the monthly pension accompany the remittance to the banks.

9.10.5 Retirement Gratuity

This is also referred as commuted pension and is a lump sum paid to an employee at the end of employment. For normal retirement to qualify for Gratuity refer to **Section 10.2.1(i)** above. Gratuity is optional and an officer can choose any percentage from 0 to 25% and Malawi Defence Force, up to 66 .67% of full pension.

Gratuity for normal retirement is calculated as follows:

a. Opted percentage x Full Pension x 13.59 (4% discounting factor for 20 years); **or**

b. $\dfrac{\text{3 year averaging Salary per annum x Period Service (For those who qualify for gratuity only)}}{12}$

9.10.6 Ex-gratia

This is a lump sum payment made to officers with a service of less than 10 years who leave the service for the following reasons:

a. Abolition of office;
b. On health grounds; and
c. In public interest.

Authority for payment is recommended by the Controlling officer and approved by the Minister of Finance. The following formulas are used to calculate Ex-gratia payments:

(i) Those paid per annum:

$$\frac{\text{Rate per month x period in months}}{60}$$

(ii) Those paid per day:

$$\frac{\text{Rate per day x period in days x 260}}{1825}$$

(iii) Those paid per hour:

$$\frac{\text{Rate per hour x 2184 x Period in months}}{60}$$

9.10.7 Contract Gratuity

Contract gratuity is paid at the end of the contract to officers who are employed on contract terms. The contract period is normally thirty-six months. The gratuity shall be calculated as follows:

a. 25% of total earnings for the entire period of the contract;
b. 15% of total earnings for the contract period if the officer do not complete the full contract; and
c. In the event of death where the officer has worked for less than a year the heirs will be paid 3 months basic salary and if the officer has worked for more than a year the heirs will get 6 months basic salary.

9.10.8 Death Benefits

This is paid to the dependants of the officers who have served 2 years and less than 20years. This is calculated as salary per annum of the deceased x 3.

Transferred terminal Benefits

These are Terminal Benefits or lump sum payable to beneficiaries upon death of a serving officer or retired pensioner. Such payments are categorized as follows:

9.10.9 Transferred Pension

This is the money paid to the beneficiaries of an officer who has died after serving for 20 years or more. The transferable pension is paid in addition to gratuity payable on normal retirement. This is calculated as follows:

a. Full Pension= $\frac{\text{3 year average salary x period of Service}}{360}$
b. 25% of Full Pension x 20.
c. Reduced Pension per annum = 75%x full pension
d. Pension per month = $\frac{\text{Reduced Pension per annum}}{12}$
e. Transferred pension = Reduced pension per month x 60.
f. Total payable benefits = (b) + (e).

9.10.10 Transferred Pension – Death of Pensioner

Transferred pension is also payable where a pensioner dies whilst on monthly pension and the beneficiaries are entitled to sixty months pension as lump sum.

9.10.11 Procedure for Processing Transferred Pensions

Where the pensioner was receiving his/her pension from the Treasury Cashier/Postmaster or Postal Agency or through the bank:

a. Beneficiaries shall be asked to bring the death certificate or other evidence and the remaining pension warrants.
b. Transferred Pension Form (PSR41) **(Annexure VII)** shall be filled by the Treasury Cashier/Postmaster and signed by a dependant.
c. The remaining pension warrants shall be cancelled.
d. Covering letter shall be written by the Treasury Cashier/Postmaster and sent to Accountant General for verification in the register certifying that the deceased was indeed a pensioner at the Treasury Cashier.
e. The beneficiaries shall take the forms to the District Commissioner of the district of the origin of the deceased for authentication and nomination of beneficiaries and the forms shall be taken back to the Treasury Cashier/Postmaster.
f. The Accountant General shall compute the gratuity and pension that is payable. The file shall be sent to the Auditor General for pre auditing of the payment before sending to DHRM&D for confirmation.
g. The Accountant General shall process the payment in respect of the Administrator General or the District Commissioner for distribution
h. If the payment is less than Mk 20,000.00, it shall be paid to the District Commissioner of the deceased. If it is over Mk 20,000.00 the payment shall be made to the Administrator General for distribution.
i. If the deceased left a Will, the Accountant General must send the cheque together with the Will. This does not apply to pensioners of the Malawi Army or those that have private administrator.

9.10.12 Part Payment of Pension or Gratuity

Eighteen months prior to a service of twenty years an officer is entitled to apply for part payment of a lump sum gratuity. This only applies to those on normal pensionable terms and does not apply to those on performance related contracts, temporary terms and those who already qualify for retirement. The officer is entitled to apply up to the maximum of 50% of the expected gratuity at the date of retirement. The balance would be paid when the officer finally has fully serviced 20 years.

Part payment can also be obtained in respect of deceased estates. The maximum the beneficiaries can apply for is one third of the total transferred pension. The balance is paid through the District Commissioner or Administrator General, as explained above.

9.10.13 Processing of Computerized Pension Payments

Processing of monthly pension payment is computerized and the following are the documents that come from processed pension payroll:

a. List of pensioners on file at the beginning of the pension warrant period.
b. List of pensioners classified by name.
c. List of pensioners classified by number.
d. List of pensioners classified by pay point with totals.
e. Summary of pensioners indicated by pay point and region.
f. PAYE tax deductions listed by pay point with totals.
g. PUSEPA membership fee deductions listed by pay point with totals.
h. Any other deductions.

On monthly basis, changes are communicated to the computerized pension payroll section through Pension Change Sheets. This information plus that existing in the records should enable the section to produce:

a. Delete sheet.
b. Pay point analysis.
c. Deduction analysis.
d. PUSEPA membership deductions.
e. Insurance deductions (Old Mutual and NICO).
f. PAYE tax deductions.
g. GAO 1.

9.10.14 Inflation Indexation

Pension benefits shall be adjusted in line with the movement of inflation. The adjustment of pension benefits shall be a maximum of 10%. For example if inflation is 15%, the pension benefits shall de calculated on the basis of 10% and if inflation is less than 10% the pension benefits shall be calculated on the basis of the actual inflation rate of that particular year.

The Ministry of Finance shall monitor the inflation rates before new financial year begins from Reserve Bank of Malawi.

Employee Contribution in the existing Scheme.

a. With effect from 1st July, 2007, all the employees who are on permanent and pensionable terms shall contribute 5% of their monthly basic salary towards the Scheme as specified in Circular ref. No. HRM/P&G/03/136 dated 15th August 2006 from the Secretary of Human Resource Management and Development.
b. The deductions shall be done at source i.e. deductions shall be made by Ministries and Department when processing salaries. Once the money has been deducted it shall be remitted to the Accountant General. The remittance should reach the Accountant General by 10th the following month.
c. Once the money is received it shall be credited to a special account. The funds in this account shall be invested to earn interests.
d. No payment shall be made from this account other than repayments to those contributing civil servants who exit the service before qualifying for retirement benefits otherwise the account shall be allowed to grow.

9.11 Commitment Management

Commitment accounting is a basis of recognizing and recording financial transactions in the main books of accounts or in subsidiary or memorandum records of all financial liabilities and claims (Commitments), actual and contingent, at the time they arise. This basis of accounting information recognition and recording recognizes and records expenditure as soon as organization becomes committed to it regardless of whether resources involved in the transaction have actually been received. In the same vein, revenues are recognized and recorded as soon as the revenue is anticipated, whether actually received or not.

Operational statements produced under commitment accounting system include not only expenditure which have actually taken place but also expenditures to which the organization has become committed e.g. by placing an order for goods or services.

The primary purpose of commitment accounting is an aid to financial control. A commitment is regarded as a charge which has been made on budget provision. A budget holder needs to know the contents of the financial budget and then be given up-date-information telling the budget holder, how much of the budget has been committed and therefore the amount of resources still available for obtaining goods and services.

Main characteristics of commitment accounting are as follows:

i. Involves extra work in terms of estimating the value of commitments, including these estimates in the accounts and then with-drawing them by substituting actual costs when are known;
ii. Matching up the commitment with the actual expenditure and substituting one for the other is difficult where there is part delivery of orders. The Commitment figure has to be split so that, part can be substituted and part left outstanding in the account. If the commitment is not reversed ,there will be a double charge in the system.(The computerized accounting system addresses this problem because once payment is made it removes the transaction from the commitment column automatically);
iii. At the year end ,all commitments that are subject of unfulfilled orders will have to be reversed or removed in order to ensure that accounts are prepared on receipts and payments(cash basis); and
iv. Determining the correct expense for the period to match against either revenue of the period or some other measures of service produced may be a problem. Matching commitments to their actual expenditure and extracting any commitments unfulfilled must be done carefully.

9.12 Internal Controls

Definition, **"**Internal Controls**"** means all the controls that need to be adopted to ensure that revenue, expenditure, assets and liabilities are properly managed, protected, and recorded in relevant books of account as spelt out in the Internal.

9.13 Audit Charter

Adequate internal controls shall exist within each Ministries Departments and Agencies. Internal controls shall include the following:

(a) revenue is properly assessed and collected;
(b) expenditure is only incurred if appropriation exists, and is always validly and correctly authorized;
(c) all public money is correctly banked and held in a secure environment;
(d) revenue, expenditure, assets and liabilities are properly recorded and accounted for;
(e) financial and operating information is accurate and reliable;
(f) all assets are safeguarded against loss or destruction, and unauthorized use;
(g) resources are employed and managed in an effective, economic and efficient manner;
(h) no waste or extravagance;

(i) outcomes are pursued, and outputs and services are produced consistent with those specified in the Appropriation Act; and

(j) relevant Government policies and legislation are complied with.
Every Controlling Officer shall ensure that processes and procedures are in place, and necessary steps are taken, which shall meet the stated internal control objectives. The responsibility to be sure that adequate procedures exist to properly protect all public money shall rest with each Controlling Officer.

Any person that is given access to the financial management information system shall not let any other person know his or her access details to the system, including his or her password, and shall change the password immediately if he or she suspects that another person is aware of it.

The Secretary to the Treasury shall delegate the data entry function for a financial management information system, to authorized officers in MDAs provided that he is satisfied that:-

(a) The officer has been adequately trained in the use of the system; and
(b) Sufficient internal controls exist to ensure that these Instructions and other instructions issued by Ministry of Finance shall be followed.

The Secretary to the Treasury shall delegate the data entry function for a financial management information system, to authorized officers in MDAs provided that he is satisfied that:

(a) The officer has been adequately trained in the use of the system; and
(b) Sufficient internal controls exist to ensure that these Instructions and other instructions issued by Ministry of Finance shall be followed.

9.14 Commitment Control System

Every Controlling Officer shall ensure that commitments are made against available funding not against budget provisions, and further that commitments in any one month do not exceed monthly funding levels. However, commitments made against long term contracts shall be disclosed using a format prescribed for computerised transaction processing or/and manual processing. Information on cancellable and non-cancellable commitments shall be disclosed in a monthly statement of expenditure submitted to the Secretary to the Treasury. The Accountant General shall ensure systems are in place for reporting monthly outstanding commitments.

9.15 End Chapter Summary

In this chapter you have looked in detail the tools for expenditure management and control, payment management relating to general expenditures and payment management relating to salaries and pensions. You also have looked at commitment management and internal controls.

Sample Questions

1. Why is there need for expenditure control?

2. What are the various controls exercised over Government expenditures and list the arms, institutions and departments involved.

3. Explain procedures of processing payment of transferred pension to beneficiaries of deceased pensioner

Chapter 10

MANAGEMENT INFORMATION SYSTEM

10.1 Introduction

In most developing countries including Malawi, budget execution and accounting processes were or still are either manual or supported by very old and inadequately maintained software applications. This has had negative effects on the functioning of public expenditure management systems. The lack of reliable and timely revenue and expenditure data for budget planning, monitoring, expenditure control and reporting negatively impacts on budget management. This resulted into poorly controlled commitment of government resources often resulting into large build-ups of arrears; excessive borrowing; pushing up of interest rates and crowding out private sector investment; and misallocation of resources, undermining the effectiveness and efficiency of service delivery. Governments found it difficult to provide an accurate, complete and transparent account of their financial position to parliament and other interested parties including donors and the general public. This lack of information hinders accountability in the government.

In the light of the above, many developing countries have pressed for and/or adopted financial management information systems to strengthen their public expenditure management systems. Since 1995 the Malawi Government has introduced a number of initiatives to improve public expenditure management. This includes the medium term expenditure framework to improve the budget process and the Integrated Financial Management Information System (IFMIS) for computerising the budgetary and accounting process.

10.2 Learning Objective

At the end of this chapter students will be able to:

a) Define financial management information system;
b) Explain management information system;
c) Describe an integrated financial management system (IFMIS);
d) Discuss the desirable qualities of an appropriate IFMIS;
e) Explain the system controls in relation to the current Malawi IFMIS system;
f) Explain any shortfalls in the current Malawi IFMIS; and
g) Explain how the current IFMIS system could be improved.

10.3 Definition of Financial Management Information System

A financial management information system refers to computerisation of public expenditure management process including budget formulation, budget execution and accounting with the help of a fully integrated system for financial management of various ministries and other spending agencies. The system integrates and communicates with other relevant information systems. Because of the integration requirement, the financial management information system (FMIS) is commonly referred to as integrated financial management information system (IFMIS). However, contrary to the meaning construed due to the use of the word "integrated", an IFMIS does not capture all financial processes and the relevant financial flows within public expenditure management. The complexity of information system within the public sector is to a large extent due to the multiplicity of functions and policy areas. In many functional areas specialised information systems are in place and are still required even with the implementation of an FMIS.

An FMIS is a management tool that provides a wide range of financial and nonfinancial information. It is a system whose role is to connect, accumulate, process and then provide information to all parties in the budget system on a continuous basis. All participants in the system need to be able to access the system and to derive the specific information they require to carry out their different functions.

10.4 Appropriate Integrated Financial Management Information System

A well designed and implemented integrated financial management information system should have the following attributes:

- Be modular and capable of progressive upgrading to cater for future needs that might not be there at the time of implementation.
- The system should offer a common platform and user interface to the stakeholders in different agencies responsible for financial management, for adding to and accessing the information database.
- The system should maintain a historical database of budget and expenditure plans, transaction data at the highest level of detail, cash flows and bank account operations including cheques issued, cancelled and paid cash balances and floats.
- The system should have dedicated modules to handle monthly, rolling, short-term and long-term forward estimates of revenues and expenditures prepared by agencies and corresponding estimates of the resulting cash flows.
- Have built-in analytical tools to offer trend analysis of various elements of fiscal operations to permit a forward look at the emerging events bearing on the fiscal stance.
- Be able to compile formal government accounts from the database of authorisations and cash allocations, primary revenue and expenditure transactions of the agencies; and treasury operations, avoiding the need to duplicate data entry for accounting purposes.
- Enable real-time reconciliation of parallel but related streams of transaction data at the agency or ministry level, cheques issued with those paid by the banks; at treasury level receipts from banks with the cheques paid in by taxpayers; cash balances reflected in the agency ledgers with the cash balances in the banks.
- Mechanise all possible routine tasks at the central and spending agencies generating various forms/ authorisations, cheques, outputting hard copies of key registers and statements.

- Be flexible enough to provide user-defined management information, aggregated at the desired level of detail from the database.

Although the FMIS does not capture all the information flows, adopting a comprehensive approach in the development of the project is fundamental to ensure that all functional interdependencies are identified, hence ensuring the capture of all related information flows.

An appropriate IFMIS will consist of several elements with different functions. The core of an IFMIS is expected to include the following modules and systems:

- General ledger;
- Budgetary accounting;
- Accounts payable; and
- Accounts receivable.

It is also expected to contain the following non-core modules:

- Payroll system;
- Budget development;
- Procurement; and
- Project ledger Asset module.

Integrated Financial Management Information Systems (IFMIS)

- The Ministry of Finance shall manage IFMIS on behalf of all MDAs and co-ordinate the operation and processing of data.

- The Secretary to the Treasury shall ensure that sufficient controls are in place in all financial information systems to avoid unauthorised access. This includes restricting access by use of passwords, eventually electronic signatures.

- The Secretary to the Treasury shall ensure that IFMIS has an audit trail and that internal auditors have sufficient knowledge of the system to enable them to audit.
- The Secretary to the Treasury shall ensure that adequate documentation of IFMIS exists and that officers using the system have been provided with sufficient training.

- The Secretary to the Treasury shall approve that MDAs operate their own financial management information system other than the centralised one if he is satisfied that the MDAs have sufficient human capacity and resources.

10.5 System Controls

Specific Computer Controls

Data Entry Control

Those involved in data entry should ensure that all information has been captured completely and accurately by:

(i) Checking separately that all input documents have been entered by reviewing against outputs.
(ii) Ensuring that input of data is through sequential numbering.
(iii) Checking that date of input and account number is accurate.
(iv) Checking list of posted accounts to their source documents.
(v) Logging out after information processed is saved.

Supervision

Senior officers shall review whether all authorized source documents have all been input correctly. Checking shall include the following:

(i) Check that all input transactions had been authorized.
(ii) Check all signatories on input documents in order to ensure that they are mandated.
(iii) Check for completeness and accuracy of postings. Match vouchers or batches to source documents.

Control Procedures on Computers

The ability of a person using a remote terminal to gain access to database requires the need for special controls to ensure that files are neither read nor written to, either accidentally or deliberately, without proper authority.

Physical controls

(i) Access to computer terminals should be restricted to authorized personnel in possession of identities.
(ii) The computer terminals and the offices they are in should be securely locked at all times when not in use.
(iii) Keys should be in custody of the System Administrator.

Controls on the operating system

(i) Use passwords to log in the computers and system.
(ii) Restrict staff to access relevant files only. Certain modules will be accessed based on respective staff passwords. The Administrator shall allot modules to which a particular password can access.

(iii) Establish stricter controls of use of files by engaging ‘Read Only’ provision.
(iv) Automatic shut down of computers where logging attempt have been violated. All violation should be speedily and thoroughly investigated.
(v) Review system records of ‘logins’ made to the system and files accessed.
(vi) Use of internet should be controlled in order to avoid unauthorized users accessing the internal database. Use firewalls or encrypt data to deny access of unauthorized external computers.

Controls to Prevent Unauthorized Use of Passwords.

(i) Passwords shall be changed regularly with the supervision of the system administrator.
(ii) Passwords shall be of reasonable length and possibly mix numbers and words.
(iii) Passwords shall not be displayed when being input.
(iv) Re-use of old passwords shall not be permitted.
(v) The system should automatically log off if a terminal is not in use for a certain period.
(vi) If someone tries to log on with the wrong password, the terminal should be disabled after two or three wrong attempts.

Server Protection

Ensure that the server is handled by mandated personnel in order to avoid unauthorised access to confidential information and further altering it and/or interference with system which could result in damage to the whole system. The server should not be used as a normal terminal, and it should be allocated in secure accommodation.

Back Up

File back up is vital as it stores copies of information/data contained in the system:

(i) Use Back ups when information is damaged, corrupted or missing.
(ii) Use Back ups to correct any errors identified.
(iii) Back up files must be taken regularly.
(iv) All back up information should be stored and locked away in a separate location from the computer system.

Support Facilities

Support services for the system are required when Users are at a standstill. Requisition for the system review should occur in cases of:

(i) Mispostings in the system.
(ii) System shutdown/logoff.

(iii) System malfunction.

Procedures for resolving the operations' cessation:

(i) Report the problem encountered to immediate Supervisors and/or Systems Administrator for assistance.
(ii) Access IFMIS manuals for simple queries.
(iii) Report to AGD Core Team for assistance.

General controls are adequately provided by the System Supplier and AGD which include:

(i) Provision of back up facilities.
(ii) Provision of system documentation and manuals.
(iii) Virus protection of system.
(iv) Provision of system upgrades. Capacity Building to Users.

Malawi Security Policy and ICT Guidelines

i. Government of Malawi computing facilities shall only be used for legitimate Government business purposes.
ii. The Secretary to the Treasury shall identify new areas to be incorporated into this information security framework, such as software licensing, data protection, computer misuse, and general requirements for financial accountability.
iii. The Secretary to the Treasury shall enforce adherence to best practice information security standards.
iv. The Secretary to the Treasury shall approve service level agreements or memorandum of agreement with all organizations that connect to Government information systems.
v. The Secretary to the Treasury shall undertake a periodic review of the effectiveness of security controls in MDAs.
vi. Controlling Officers shall ensure that reasonable care of the Government's property, including computers, printers, communication links, recording media and other associated devices is taken. These shall cover areas such as Restrictions on Use, Authorized Software, Authorized Hardware, Access Control, Virus Controls, and Back-up.
vii. Controlling Officers shall ensure that no internet use is allowed on all IFMIS facilities.
viii. Controlling Officer shall ensure that no IT Systems are removed from Government premises without written approval.

End of Chapter Summary

This chapter has focused on management information system for the public sector accounting and financial management. The Malawi Government needed a good system to improve public expenditure management. This means the computerisation of the budget and accounting processes through the Integrated Financial Management Information System (IFMIS).

You have learned that the Financial Management Information System (FMIS) is a management tool that provides a wide range of financial and nonfinancial information. It is a system whose role is to connect, accumulate, process and then provide information to all parties in the budget system on a continuous basis. All participants in the system need to be able to access the system and to derive the specific information they require to carry out their different functions.

Sample Questions

1. What is an Integrated Financial Management System?

2. What are the desirable characteristics of a well designed IFMIS?

Chapter 11

CASH MANAGEMENT AND CONTROL

11.1 Introduction

This chapter looks at issues of Cash Management in public sector that includes, cash flow forecasting, cash inflow control, cash outflow control, determination of cash balances, advances and loans, public debt redemption funds, public debt sinking funds, investments and deposit disclosures, ways and means advances, credit ceiling authority.

In public sector accounting, cash management is principally concerned with analysing liquidity across the entire accounting entity. It involves examining all resources of the entity, matching these resources against expenditure commitments, contingent liabilities and others. In some government units revenues are matched against expenditure on a weekly basis. Other units practice monthly or quarterly basis of analysis. The importance of verifying the trend of receipts or revenue flow against cash outflow is to minimize borrowing and ensuring a free flow of activities in government unit.

Another reason for the need for effective cash management in government departments and agencies is recognition that government resources flow into Ministries, Departments and Agencies (MDAs) in a seasonal manner or pattern. Without cash management it is very difficult for the Secretary to the Treasury and the Accountant General to make informed financing or investing decisions. For these decisions all MDAs are expected to prepare Cash-flow forecast as part of their budgetary control system. All revenue agencies are to prepare revenue projections, just as the Ministry of Finance also prepares a schedule of statutory payments and non-tax revenues.

Besides, there are regular meetings between the staff of the Accountant General's Department, Ministry of Finance and the Reserve Bank of Malawi.

It should be recognised that although the national budget may be balanced over the fiscal year as a whole the flow of revenue(tax) and other receipts and expenditure is not synchronised on monthly bases so that immediate debt financing may be required. Therefore, ineffective cash management may lead to macroeconomic imbalance, expenditure cuts, inflation and so on.

11.2 Learning Objectives

By the end of this chapter, you should be able to:

- Explain the purpose of having a sound and effective cash management system.
- Explain what a cash flow forecast is, the importance of preparing a cash flow forecast and uses of a cash flow forecast.

- Discuss the importance of accelerating the flow of receipts into the organisation if payments are to be promptly processed (Cash inflow control).
- Explain terms of payments while continuously monitoring cash balances to avoid cash deficits (Cash outflow control).
- Explain the objectives for accounting for advances, control and authorisation of advances, classification of advance accounts, processing of payments, recovery of personal advances and contingency advance account.
- Prepare cash flow projections from the given set of figures
- Define the public debt redemption fund, and the public debt sinking fund.
- Explain the eight methods of public debt redemption
- Explain the ways and means advances the government obtains from the Central Bank.
- Define the Credit Ceiling Authority System and how it is important in cash management.
- Define the Treasury Single Account and explain the essential features of Treasury Single Account, main objectives and benefits.
- Explain the uses, control, authorisation, and accounting of different types of impress accounts.

11. 3 Cash Flow Forecast

A cash flow forecast is an estimate of cash receipts and cash disbursements (together, cash transactions) during a given period. When used as a cash management guide, it can lead to the optimized use of funds as well as insure sufficient liquidity. When used for investment purposes it also helps identify maximum maturity limits, and weighted average maturity limits that establish potential benchmarks.

Cash flow forecasting helps governments to have a plan and determine the portfolio needs to remain liquid to meet disbursement obligations, generally on a monthly basis. Also, it can identify core funds, or those funds available for longer-term investing which allows a longer maximum maturity. For instance, cash flow forecasts can help identify reasonable maximum maturity and a weighted average maturity for safety and liquidity in the portfolio. Cash flow forecasting is distinct from governmental accounting and budgeting. It is a forecast to measure the organization's ability to meet liquidity needs. The ultimate goal of this forecast is to mitigate the need for short-term borrowing or liquidation of securities (investments) before maturity. Cash forecasting should take into consideration all organization-wide portfolios and funds. This allows spending patterns to be coordinated to mitigate potential shortfalls and balance the flow of funds.

It is recommended that all MDAs should be involved in developing reasonable expectations of timing and amounts of planned expenditures. This ensures all possible outflows of resources are measured, and if needed, prioritized. Forecast time frames should accurately reflect the cash transactions of the organization.

The organization's goals should drive the prioritization of expenditures. Further, fixed items such as payroll, employee benefits, insurance, and debt service should have priority of cash demand over discretionary expenditures.

Historical data should be used to measure activity of a cyclical nature, both for receipts and disbursements. A well-established base of financial activity predicated on historical data enables the cash forecaster to anticipate disbursements and receipts. This activity should be verified by the operating department for its likely recurrence.

A forecast for receipts should include expected inflows and investment maturities. Inflows include payments such as property taxes, utility payments, and user fees. Maturities include all items held in investments that will mature during the forecast time frame.

A forecast for disbursements should include regular expenditures such as payroll and recognize non-repetitive expenditures. Historical data can assist in forecasting disbursements.

Cash flow forecasts should be used to recognize the items and controls that influence the organization's cash position. Organizations should develop strategies to implement effective and efficient cash management techniques such as collecting receipts as soon as possible and managing disbursements judiciously.

Forecasts should be made conservatively. Fluctuations may occur in both receipts and disbursements for a variety of reasons. The level of precision required in a forecast or tolerance for variance should be determined at the organizational level and not on an ad hoc basis.

Forecasts should be updated on a regular basis, for example, monthly. The frequency of such updates is determined by the volatility of revenues and expenditures. Daily monitoring and recording of actual revenues and expenditures by major categories can greatly enhance the organization's ability to prepare timely updates to the cash flow forecast.

If cash flow forecast is not properly done the results are:

- Failure to fund MDAs on due dates;
- Failure to release cheques to beneficiaries for fear that the cheques will be referred back to drawer because there are no funds;
- Deliberate delay to release cheque list to banks to clear cheques to be paid for fear that will meet no funds and that cheques will bounce;
- Government cheques being referred to drawer; and
- Failure by government to identify revenues that could boost government revenues.

11. 4 Cash flow Control

The purpose of cash control, in cash management is to minimize the time between when money is due to be received and the time when money is available for spending or investment. Accelerating the flow of receipts is useful therefore only if payments are promptly processed and deposited in the appropriate bank account and arrangements are made, in turn, for the prompt transfer of credit balances in commercial banks for use by the government. All revenue departments should have a collection plan that is part of the cash flow forecast. The causes of significant variations from planned collections should be evaluated and adjusted where necessary.

11. 5 Cash outflow Control

Cash outflow control begins with the terms of payment and continues to the time that the funds are charged to the payee's account. A weakness in cash outflow control is to ignore the disbursement float and treat funds as no longer available on the day the cheque is issued. Unless the reasons are compelling, payments should be made only when due. As mentioned earlier, both late and premature payments should be avoided. Procedures should be established for regular comparison of actual planned disbursements.

11.6 Determination of Cash Balances

Operating cash balances should be kept to a minimum. This implies that excess cash should be invested. As a part of this aspect of cash management, it has been suggested that procedures should be introduced for charging interest to individual agencies for funds used or for crediting them for funds not used. The government should also consider that it should earn interest on all deposits and that it should in turn, pay for all banking services it receives.

11.7 Advances and Loans

Introduction

As per Desk Instruction No. 9:an advance is a sum of money granted to government employees, Treasury or Trust fund, Statutory Body or to another Government for a specific purpose. The advance is required to be paid over a specific period with or without interest. Advance payments are not in the nature of final expenditure of the Government and do not require to be voted annually by the National Assembly. For this reason transactions are not classified under budgetary accounts but are recorded in below the line Accounts authorized by the Treasury.

11.8 Advances and Payments

The accounting for advances has the following objectives:

(i) To ensure that all advance transaction are correctly reflected in the National Accounts.

(ii) To enable the Treasury to restrict advances outstanding within the limits imposed by Parliament.

(iii) To ensure that individual accounts of advances paid are correctly maintained and recoveries are affected without delay.

11.9 Control and Authorization

11.9.1 The control and authorization of advances is regulated in terms of Public Finance Management Act, Treasury Instruction and the MPSR. In terms of Public Finance Management Act, the total outstanding advances at any time shall not exceed such limits as are fixed by the relevant authority. It is the responsibility of the Controlling Officers to watch compliance with this limit through control accounts maintained by Ministries and Departments who are responsible for ensuring that the amount advanced is recovered on the dates specified.

11.9.2 Acquire the following before an advance is granted, there must be:

(i) Approval from the Accountant General for opening a bank account
(ii) Authorization of the payment of advance specifying the amount, period and terms of repayment.

11.9.3 Each Advance should be recorded in a separate register according to the type of advance. The Advances Section shall ensure that each advance is recorded in accordance with the terms of the advance. The register is one of the key records considered for regular inspections by designated responsible officers.

11.9.4 The register shall contain the following;

(i) Full name of person receiving the advance
(ii) Title of the post held
(iii) Date of the advance and reference to the payment voucher
(iv) Authority for the advance
(v) Amount of the advance
(vi) Terms of repayment, including capital and interest
(vii) Amount of each instalment, including a breakdown of the amounts
(viii) Date of each instalment paid
9.1.1 If more than one advance is paid to an officer, the register shall show each advance separately

9.2 Classification of advances of Accounts

9.2.1 Advance accounts are Below-the-line accounts under the Consolidated Advance Account.
9.2.2 Each advance account is classified under Head, Item and Sub-item given in the list of Below the Line codes brought out by the Accountant General. Advance accounts, which are not sub-itemized, shall use the sub-item code 101.
9.2.3 Broadly Advance accounts fall under the following categories:

(i) *Personal Advances to Civil Servants*
These are classified under Head 401. A separate item identifies each type of advance. Advances to Organizations such as Treasury, Trust Funds or Statutory Bodies
These are classified under two heads. Head 406 Advances public Bodies etc. and Head 407 – Advances Trust and other funds. Items identify the organizations concerned.

(ii) *Advances to other Governments – Head 402*
These are payments made on behalf of other governments and International Organizations to be later reimbursed by them i.e. 402-118-101 represents advance payments on behalf of Government of Zambia.

(iii) *Advance Accounts for donor financed self-help projects*
There are a number of advances accounts in this category: -

(a)	408 – Advances:	AID Self-Help Projects;
(b)	409 – Advances:	Christian Service Committee;
(c)	411 – Advances:	West Germany Mini projects;
(d)	413 – Advances:	British Government; and
(e)	414 – Advances:	UNICEF.

Items under these heads identify the specific self-help projects. The Treasury processes monthly claims for reimbursements. Reimbursements are credited to corresponding Deposit Accounts for each donor. After reimbursement is received the Advance Account is cleared by debiting the corresponding Deposit Account.

(iv) Advance Accounts for recording payment which cannot be immediately allocated to the expenditure Votes or Heads
There are three advance accounts in the category:

(a)	403 - Advances	- Agencies;
(b)	405 - Advances	- Losses of Public Money or property; and
(c)	410 – Advances -	Clearance Revenue/Expenditure.

(v) *Advances Other - Head 404*
These include miscellaneous advance accounts opened for specific purposes. Items identify the specific account e.g. 404-112-101–loans and 404-165-101 loans.

Advances paid are debited and recoveries of principal credited to the respective advance accounts.

Recovery of interest charges, however, shall be classified to revenue Head 054- Public Debt Charges.
In case of any doubt regarding the correct allocation of any advance transaction, obtain the advice of the Accountant General.

9.2.1 Personal Advances

There are five types of Advances: -

(i) **Motor Vehicle Advance** (Account Code 401-101-101). This is granted for purchase of a motor vehicle or motor cycle.
(ii) **Bicycle Advance** (Account Code 401-104-101). Granted for purchase of bicycle.
(iii) **Education Advance** (Account Code 401-103-101). Granted for meeting cost of tuition fees and textbooks for correspondence courses at approved institutions.
(iv) **Emergency Advance** (Account Code 401-102-101). This is granted where an unforeseeable occurrence has resulted in serious financial hardship to the applicant.
(v) **General Purpose Advance.** Advance for general purposes.

9.2.4 The grant of personal advances is regulated in accordance with the conditions contained in the MPSR and Treasury Circular Instructions issued from time to time.

9.2.2 Number of advances Admissible

Only one advance in additional to the Emergency Advance can be authorized to a Civil Servant at any one time. In case a second Emergency advance is authorized before recovery of first Emergency Advance is completed, the new advance can be amalgamated with the old one on application by the officer concerned submitted to the Treasury through the Controlling Officer. In this case the period of recovery and monthly instalments shall be recalculated with reference to the consolidated amount of the advance.

9.2.3 Repayment of Advances

The recovery period of the Advance should not exceed the period as provided by the MPSR which lists the maximum amount an officer can apply for as advance and the maximum period of repaying it. The repayment period and number of instalments to pay back the advance can therefore be calculated accordingly.

Listed below are the advances showing the maximum amount applicable including the repayment period limit.

Type		**Entitlement**	**Recovery Period**
(A)	Motor Vehicle	24 months Salary	78 Months
(B)	Emergency	3 Months Salary	18 Months
(C)	Bicycle	Cost of Bicycle	48 Months
(D)	Education	Tuition & Text Books	48 Months
(E)	General Purpose	18 Months Salary	72 Months

9.2.4 Calculation of Interest

Interest is charged on all Personal Advances, except Education and Coffin Advance. The Treasury fixes the rate of interest from time to time. Where the amount of the advance is to be recovered with interest, calculate interest as follows:

$$\text{Interest Payable Monthly} = \frac{(A \ X \ R)}{12X100} \ \mathbf{X} \ \frac{(P + I)}{(2)} \div P$$

Where:
A = Amount of Advance
P = Period (Number of Months) required for repayment
R = rate of Interest

Any fraction left over is added to the final instalment. In case an advance is paid before the end of the original repayment period interest shall be recalculated on month-to-month basis.

9.2.5 Calculation of Monthly Instalments of Principal

After determining the recovery period, monthly instalments of principal are calculated by dividing the amount of advance by the period in months. Any fraction left over on division is added to the first instalment.

9.2.6 Application Procedure

(i) Application for Personal Advances shall be submitted in triplicate on the forms prescribed in the MPSR.

(ii) The particulars furnished by the applicant shall be checked with reference to his personal file and records in the salaries section.

(iii) The responsible officer shall consider the applicant's need for the advance, his emoluments, existing advances and other commitments and his ability to repay the advance before authorizing or recommending the advance. In all cases documentary evidence in support of the application shall be obtained and scrutinized.

(iv) In the case of application for Emergency Advance the responsible officer shall satisfy himself with reference to documentary evidence that the financial hardship is genuine. (Reference Treasury Circular Instructions No.1 dated 23 February 1981).

(v) For GPA, motor vehicle/cycle advances, Controlling Officers are required to send applications with a covering letter, addressed to the AG, indicating the Net pay the applicant shall receive if the advance is approved. In case the net pay is unreasonably reduced and shall cause financial hardship to the officer concerned, the application shall not be recommended. (Ref. Letter No. 4/1/4/11/63 dated 31.12.1985 from the Secretary to the Treasury).

(vi) The applicant shall execute an agreement in triplicate in the prescribed form and affix a stamp on the original agreement form. The responsible officer on behalf of the Government signs the agreement.

9.2.7 Advances under Exceptional Terms

Application for advances, which do not conform, to the normal terms laid down in the MPSR shall not normally be entertained. In exceptional cases where the responsible officer is personally convinced of the genuineness of the request, the application shall be submitted for approval of the Accountant General. Advances on exceptional terms can be considered in the following circumstances:-

(i) Discretionary Emergency Advances for an amount in excess of three months salary or repayable over the period exceeding that specified in the regulations; and

(ii) Request for merger of two or more advances other than motor vehicle and Bicycle Advances.

9.3 Preparation of Payment Vouchers for advances

9.3.1 Vouchers for payment of the Advance are prepared in quadruplicate on Form GP10 together with Payment Advice (form GP 36).

9.3.2 The voucher shall show:

(i) The name and man number of the applicant;
(ii) The post held;
(iii) Type of advance;
(iv) Amount (capital and interest);
(v) Recovery period;
(vi) Monthly instalments,;
(vii) Month recoveries to start; and
(viii) The account allocation of the advance.

9.3.3 Vouchers are made payable as follows:

(i) Motor vehicle and bicycle Advance to the sellers;
(ii) Education Advance to the Educational Institution concerned;
(iii) Emergency Advance to the applicant. If for discharging debts, cheque shall be payable in favour of the creditor; and
(iv) General Purpose Advance to the applicant.

9.3.4 The Officer in charge of the Section shall check and sign the voucher.

(i) All the four copies of the voucher and the agreement forms are forwarded to the cash office of Ministry headquarters (Advances Section);
(ii) The Cash office examines the voucher, obtains Treasury approval where necessary and the Ministry issues a cheque for the amount. Particulars of the vouchers are noted in separate registers maintained for each Department;
(iii) Each Ministry shall designate an officer for collecting cheques for advances. On collecting the cheque (together with payment advice) the designated officer shall acknowledge receipt in the Dispatch Register kept in the cash office; and
(iv) The Advances Section of the Ministry Headquarters returns two copies of the voucher together with two copies of the agreement forms to the Ministry/Department concerned under a covering letter issued in duplicate. One copy of the section dealing with advances in the Department concerned and returned to the Ministry's headquarters acknowledging receipt of the payment voucher;
(v) On receipt of the copy vouchers in the Department one copy is filed in the Personal File of the officer. The Second copy is used to post in the Advances Register;
(vi) The page number in the Advances Register on which the Advance is recorded shall be noted on the covering letter received from the Ministry Headquarters;
(vii) The covering letter shall thereafter be submitted with the Advances Register to the Head of the Section who shall check and initial the entries made in the register. After entry in the Advances Register the voucher

shall be passed to the salaries officer for entry in the Earnings Record Card of the officers concerned. This is the basic record for effecting recoveries of the advance and it shall be ensured that entries made are correct and complete.

9.4 Recoveries of Personal Advances

Recovery is effected in the following manner:-

(i) In the case of the officers paid through the computer payroll, recoveries shall be effected through the Salary Change Sheet and shall appear as a deduction on their pay slip; and

(ii) Mileage rebate is applied in addition to the normal recoveries in the case of motor vehicle advances. When an officer uses his private vehicle on Government business and submits his travel claim, an amount calculated at the prescribed rate is deducted and credited to his advance account. A copy of the relevant voucher (GP. 68) shall be forwarded to the Section maintaining the Advances Register.

9.4.1 An Advances Card

An Advances Card shall be maintained to record amounts paid and recoveries effected in respect of each advance. The card is maintained as follows:-

(i) Separate folio on the card shall be used for each officer to whom an advance is paid;

(ii) The details of advances paid are entered at the top part of the card. Entries are made for the relevant payment vouchers before these are submitted for payment to the Ministry Headquarters;

(iii) Details of monthly recoveries are entered on capital and interest columns respectively. Entries are made from:-

  (a) Deductions Analysis in respect of computerized salaries; and
  (b) Payment voucher (GP.68) in respect of mileage rebate from travel claims.

(iv) Recoveries on account of capital and interest shall be recorded in separate columns. The amounts recovered shall agree with monthly instalments recorded in part I;

(v) The head of the accounts section shall ensure that rebates effected from travel claims of officers are being recorded on the Advance Card;

(vi) Credit balances on the Advance Card indicate: -

  (a) Recoveries pertaining to another account have been miss posted;
  (b) Recoveries have been made in excess; or
  (c) The amount of advance paid has not been correctly recorded. Such cases shall be investigated and necessary corrections made without delay.

(vii) Where a continuation folio or card has to be used for recording recoveries, ensure that the balances have been correctly carried forward; and

(viii) If the payment is completed earlier than the recovery period fixed, (e.g. motor vehicle advances where recoveries are also made through deduction from travel claims), the interest chargeable shall be recalculated and the salaries officer advised.

9.4.2 Debts transferred to Personal Advance Accounts

In the following cases amounts due from civil servants are required to be transferred to their personal advance account:

(i) Imprest not retired;
(ii) Amount due for goods or service not paid within the stipulated period; and
(iii) Losses for which a civil servant is held responsible and surcharged.

If it is not possible to cover the full amount of the outstanding imprest from the officers salary for the month, approval of the Accountant General shall be obtained for recovery of the amount in instalments by transfer to Personal Advance Account of the officer (see **Desk Instructions No 15).**

In the case of debts at **9.11.1 (ii)** above, defaulting officers shall be addressed to settle the amount within 14 days failing which deductions shall be made from the officer's salary. In such cases the period of recovery shall be determined by the formula:-

$$\frac{\text{Amount due X 4}}{\text{Gross monthly salary}}$$

In each case interest shall be charged in the usual manner from the date the amount becomes due from the officer.

A Journal Transfer Voucher shall be transacted and forwarded to the Accountant General (Advances Section) debiting the appropriate 401 account in the name of the officer. The accounting entries shall be as shown below :-

Debit:	401 (relevant item) – Amount of debt plus interest
Credit:	Appropriate expenditure account or revenue head – Principal Amount
Credit:	1-271-01-02-24-503 – amount of interest (Authority Treasury Circular Instruction No. 1 of 1978).

The Advances Section shall check that the Journal Voucher is correct and record it in the Advances register.

9.5 Transfer or Posting of an Officer

When an officer is transferred or posted to another Ministry/Department, full details of all advances outstanding shall be shown on the Last Pay Certificate (Form GP 107). The salaries officer shall verify with entries in the Advances Register and countersign the Last Pay Certificate.

9.6 Refunds of Over Deductions

When an over deduction or over recovery of an advance has been made refund of capital shall be authorized by the Controlling Officer or Head of Department through the payroll. Over deductions on interest shall be refunded by the Accountant General. Copies of pay slips from the time when the advance started to the month when the over deduction stopped shall be attached to the voucher.

9.7 Clearance of Personal Advances Accounts

When an officer's service has been terminated for any reason or when an officer retires or resigns from service it shall be ensured that all advances and interest due are recovered from the officer's salary or terminal benefits. Before releasing any payment due, the Controlling Officer shall ascertain from the officer maintaining the Advances Card if any advance is outstanding against the officer.

When an officer dies, retires or dismissed in service, any outstanding advance shall be reported to the Accountant General's Department for recovery from the gratuity or transferred pension.

9.8 Irrevocable Advances

When an advance proves to be irrecoverable, the amount shall be reported as a loss and action taken for writing off the loss shall be in accordance with Desk Instruction No 14.

9.9 Reconciliation of personal Advances Accounts

The Accountant General shall forward monthly computer tabulations of transactions on advance accounts pertaining to each Ministry/Department. The tabulations shall be checked with the Advances Ledger. All debits on the tabulation (advances paid) have been recorded in the register and all credits on the tabulations (amounts recovered) have been recorded correctly in the individual accounts. A reconciliation statement shall be submitted to the Accountant General monthly.

9.10 Advance Accounts Other Than Personal Accounts

Ministries and Departments are authorized to operate advance accounts other than Personal Advances as detailed in the list of Below-the-line account circulated by the Accountant General.

Approval for opening new advance account shall be obtained from the Secretary to the Treasury.

Where the advance is of continuing nature, the Accountant General shall approve accounting instructions for operation of the account.
The control of Advance Account rests with the Ministry/Department authorized to operate the account. It shall be ensured that transactions in these accounts are in line with the purpose for which the account was opened. Under no circumstances can expenditure be booked to an advance account merely to avoid expenditure on budgetary accounts.
Each Ministry/Department shall keep a record of transactions of each advance account in the Below-the-Line Account Ledger (Form GP. 80) See Annexure I).

Separate folios in the ledger shall be used for each advance account. Payments shall be recorded on the debit side and recoveries on the credit side.

Advance accounts pertaining to donor-financed projects shall be balanced monthly and a balance statement of transactions sent to the Treasury for claiming reimbursements from the donor. Copy vouchers shall support the statement since the donor requires such documents.

Advance accounts shall be reconciled monthly with computer tabulations received from the Accountant General. A reconciliation statement shall be submitted to the Accountant General quarterly in the form prescribed for the purpose.

9.11 Contingencies Fund Advance Account

Ministries/Departments are authorized to operate advances account other than Personal Advances as detailed in the List of Below – the – Line Codes circulated by the Accountant General

Expenditure from the advance account is incurred by the Ministries/Departments and allocated to head 400 – relevant item for the Ministry concerned.
Where the advance is of a continuing nature accounting instructions for operation of the account shall be approved by the Accountant General

Monthly computer tabulations (Items Posting) received from the Accountant General shall be reconciled with the Contingencies Fund Ledger in the usual manner.

After the National Assembly approves supplementary provision a Journal Transfer Voucher is raised by the Ministry/Department debiting the relevant expenditure vote and crediting the advance account and sent to the Accountant General clearing the advance account.

Particulars of JTV shall be posted to the relevant Votes Ledger (GP.114) in the Ministry/Department concerned and cross-referenced in the Contingencies Fund Expenditure Ledger.

It shall be noted that a contingencies Fund advance can only be used for meeting expenditures of an urgent and unforeseen nature as specified in the Treasury Warrant. It cannot be utilized for any other expenditure for which budget provision is found to be inadequate.

11.7 Public Debt Redemption Funds

Redemption means repayment of a loan. Redemption refers to escaping from the burden of public debt.

The following are eight methods of Public Debt Redemption:

a. Sinking Fund Method

The Government creates a fund called sinking fund by accumulating a part of the public revenue every year for the repayment of debt. This is the most systematic and best method of public debt redemption. The burden of debt is spread evenly over a period of accumulation of the fund. Sinking fund creates confidence among the lenders and increases the credit worthiness of government.

b. Capital Levy

A direct tax upon the capital of the tax payer is called capital levy. It will be generally imposed in times of emergencies. Debt redemption by imposing heavy taxation on property has been advocated. However, this method has raised objections as heavy taxes might lead to undesirable effects on the economy.

c. Conversion

Conversion is not repayment; it is only exchange of new debt for old. It is the process of converting or altering a loan with given rate of interest into a loan at a lower rate of interest. This may take place at the time of maturity or before the time of maturity by the voluntary acceptance. The main advantage of conversion is that it reduces the interest burden of the state and relieves tax payers. For this method to work, the government must maintain an adequate stock of securities for a smooth functioning of this method.

d. Refunding

Refunding implies the issue of new bonds and securities by government to repay the matured loans.

The short term securities are replaced by long term securities. Under this method, the burden of repayment of public debt is postponed to a future date.

e. **Terminal Annuities**

The fiscal authority clears off a part of public debt every year by issuing terminal annuities to the bond holders which mature annually. It is a method of redeeming debts by instalment. The burden of the debt goes on diminishing annually and by the time of maturity it is fully paid.

f. **Redemption by Purchase**

In this case the government pays off debts by purchasing securities even before the maturity whenever it has surplus budget. However, surplus budget is a rare phenomenon in modern times.

g. **Additional Taxation**

The government imposes new taxes to get revenue to repay the principal and interest of the loan. This is the simplest method of redemption. If new taxes are levied to repay long term debts, the burden is imposed on future generation. This method is redistribution of income from the tax payer to the bond holder.

h. **Surplus balance of payments**

External debt redemption is possible only by accumulating foreign exchange reserves. Hence it is necessary to create a trade surplus by increasing exports and reducing imports. External debt can also be reduced by changing the terms of repayment. The loans raised must be used productively so that they are self liquidating posing no real burden on the economy.

11.8 Public Debt Sinking Funds

A sinking fund is a fund created by the government and gradually accumulated every year by setting aside a part of current public revenue in such a way that it would be sufficient to pay off the funded debt at the time of maturity. Perhaps, this is the most systematic and best method of redemption. Sinking fund is in essence, like a depreciation fund prudentially created. Under this method, the aggregate burden of public debt is least felt, as the burden of taxing the people to repay the debt is spread evenly over the period of the accumulation of the fund.

11.9 Investments and deposit Disclosures

Disclosures about deposits with financial institutions, investments(including repurchase agreements),and reverse repurchase agreements help users of state and local government financial statements assess the risks an entity takes in investing public funds. As explained more fully below, entities should make certain disclosures about:

a. Legal or contractual provisions for deposits and investments, including repurchase.
b. Deposits and investments, including repurchase agreements, as of the balance sheet date and during the period.
c. Legal or contractual provisions for reverse repurchase agreements.
d. Reverse repurchase agreements as of the balance sheet date.

The disclosures required by this Statement should generally be made for the entity as a whole. Additional or separate disclosures for component units, pension trust funds, or other funds or fund types should be made in certain circumstances

11.11 Legal or Contractual Provisions for Deposits and Investments, including Repurchase Agreements

The entity should briefly describe in the notes to financial statements the types of investments authorized by legal or contractual provisions. If the types of investments authorized for different funds, fund types, or component units differ significantly from those authorized for the oversight unit and those funds, fund types, or component units have material investment activity compared with the combined entity's investment activity, the differences in authorized invest types should be disclosed.

If the bank balances of deposit as of the balance sheet date are entirely insured or collateralized with securities held by entity or by its agent in the entity's name, that fact should be stated. If not, these disclosures should be made:

a. Carrying amount of total deposits, if not separately displayed on the balance sheet.
b. The amount of total bank balance classified in these three categories of credit risk:

   I. Insured or collateralized with securities held by the entity or by its agent in the entity's name.
   II. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
   III. Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name).

The term securities, as used in this paragraph, include securities underlying repurchase agreements and investment securities.

The above paragraph may not apply to all types of investments. In general, investments in pools managed by other governments or in mutual funds should be disclosed but not categorized because they are not evidenced by securities that exist in physical or book entry form. Securities underlying reverse repurchase agreements should also be disclosed but not categorized because they are held by the buyer-lender.

If the credit risk to the oversight unit is not apparent because (a) the deposit investment balances of component units, pension trust, or ether funds are significant (b) the mix of credit risk categories for those units or funds is significantly different from that of the oversight unit, additional or separate disclosures concerning credit risk categories should be made for those units or funds.

11.12 Ways and Means Advances

These are moneys advanced to the government by the central bank **(The Reserve Bank of Malawi)** from the reserves, to be repaid when there is sufficient revenue. These advances usually occur at the beginning of the year, before the annual estimates have been approved, when the balance on the Consolidated Fund is traditionally. low.

12. Credit Ceiling Authority

12.1 Funding

Credit Ceiling Authority System (CCAS)

The funding system involves the allocation of spending limits on each bank account as the basis of which Ministries/Departments shall draw cheques. The total amount drawn therefore shall not exceed the authorized document that shall be serially numbered.

The Authorizing Document shall be prepared by the Secretary to the Treasury, counter-signed by Accountant General and acknowledged by the Reserve Bank of Malawi before sending to the commercial banks for action.

Procedures

(i) The Treasury shall prepare a monthly Credit Ceiling Authority (CCA) as a funding instruction for each Ministry/Department by bank account and this shall be signed by designated officers in Treasury, Accountant General and acknowledged by Reserve Bank of Malawi. A copy is sent to commercial bank as a notification of the limit.

(ii) The Treasury shall record all Credit Ceiling Authority forms by date, serial number, Ministry/Department, bank type of account, amount and maintain a file of each funding instruction for all authorized commercial banks.

(iii) After completion of the above process, the Treasury shall inform all the relevant Commercial Banks of the funding instruction through the Accountant General and Reserve Bank of Malawi on serially numbered CCAs as recorded on file.

The Accountant General Department- Treasury Clearing House (TCH)

(i) On receipt of the CCA instruction, the AGD's TCH shall check and countersign the funding Instruction from Treasury and forward to Reserve Bank of Malawi.

(ii) TCH shall prepare vouchers in triplicate equivalent to the amounts of the funding instruction for each bank account, debiting ,for instance, each Ministry's Account– 301 and Crediting the cash account of the operating government account TCH 301- 148-152-000.

(iii) The Accountant General shall inform the Ministries through sending them CCA Advice Note and shall maintain a ledger for each commercial bank for funding.

(iv) The Treasury Clearing House (TCH) shall maintain appropriate files for all funding instructions for future records and advise the Ministries/Departments on any query arising from the Funding Instructions.

Ministry/Department

(i) On receipt of the CCA funding instruction from AGD, the perforated slip shall be signed, detached and sent back to the AG for filing in the Treasury Clearing House (TCH).

(ii) The Ministries/Departments shall then enter the amounts on the Funding Advice Note into the relevant cashbooks and ensure that their expenditure does not exceed the approved funding CCA limit.

(iii) All recoveries made from various accounts shall be deposited into the correct holding accounts and arrange for transfers of such amounts by requesting for Supplementary Credit Ceiling Authority (SCCA) from the Accountant General Banking section with the bank deposit slips attached to Form Request for Supplementary Credit Ceiling Authority.

(iv) Where the Ministries/Departments wish to transfer part of its Spending Limit to its Cost Centre the ministry shall fill in the relevant forms for approval by AG Request to transfer spending Limits between Accounts Forms.

(v) Ministries/Departments shall also maintain files of all funding vouchers, Advice Notes, Requests for Supplementary/Credit Ceiling Authority and Request to Transfer Spending Limits between Accounts Form.

(vi) Since Government bank accounts in Commercial Banks are prohibited from receiving any deposits, unclaimed payments (in respect of salaries for instance), or overpayments recoveries for private telephones shall be deposited into the relevant funding account of the Ministry or Department at the RBM. Whenever required the account holder shall request the AG to transfer the funds so deposited to the Ministry's main operating account in the commercial bank for subsequent transfer to the relevant bank branch account(s). This procedure shall be carried out using SCCA form. The Same procedures shall apply to all revolving accounts such as recoveries in respect of advances.

(vii) If the monies deposited are to be drawn using the SCCA Form, this shall be done in the same calendar month when the deposit was made.

Reserve Bank of Malawi

The Reserve Bank of Malawi shall:

(i) Ensure that all commercial bank Operating Accounts have corresponding holding accounts, which shall be endorsed, with Credit Ceiling Authority submitted by Accountant General.

(ii) Check and ensure that all the SCCA processed by the Ministry is credited in the Ministry's holding account.

(iii) Debit the Government operating account with the amount on the Supplementary Credit Ceiling Authority to clear all transactions from the Commercial Banks operating account and crediting the operating accounts in the Commercial Banks on daily basis.

(iv) Provide monthly reports of the holding accounts to Ministries/Departments with copies of the same to the Accountant General on the operations of the holding accounts.

(v) Reimburse all the transaction claims made by the Commercial Banks.

(vi) Clear bank overdrafts and charges raised as a result of delays by Reserve Bank of Malawi to clear reimbursements to commercial banks by debiting Credit Ceiling Authority commission account.

Commercial Banks (National Bank of Malawi, Standard Bank, First Merchant Bank, Malawi Savings Bank)

The Commercial Banks shall:

(i) Continue to operate and manage existing bank accounts of the Ministries/departments in the manner stipulated by Government.

(ii) Process all the approved Credit Ceiling Authority by honouring cheques from Ministries/departments up to the spending limits indicated on the Credit Ceiling Authority.

(iii) Claim from Reserve Bank of Malawi all the amounts paid out by the bank on each account with the supporting documents attached.

(iv) At the end of each month raise commission charges and submit to Reserve Bank of Malawi for payment.

13.1 Single Treasury Accounts

Definition

A Single Treasury Account is a unified structure of government bank accounts that gives a consolidated view of government cash resources. Based on the principal of unity of cash and the unity of treasury, a TSA is a bank account or a set of linked accounts through which the government transacts all receipts and payments. The principal of unity follows from the fungibility of cash irrespective of its end use. While it is necessary to distinguish individual cash transactions for control and reporting purposes, this purpose is achieved through the accounting system and not by holding/depositing cash in transaction specific bank accounts. This enables the treasury to delink management of cash from control at transaction level.

A full –fledged Treasury Single Account (TSA) shares three essential features.

- First, the government banking arrangements should be unified, to enable ministry of finance (MoF) or Treasury over sight of government cash flows in and out of these bank accounts. A unified structure of government bank accounts allows complete fungibility of all cash resources, including on real-time basis if electronic banking is in place. The TSA structure can contain ledger sub-accounts in a single banking institution (not necessarily a central bank), and can accommodate external zero balance accounts (ZBA) in a number of commercial banks.
- Second, no other government agency operates bank accounts outside the oversight of the Treasury. Options for accessing and operating the TSA are mainly dependent upon institution structures and payment settlement systems.
- Third, the consolidation of government cash resources should be comprehensive and encompass all government cash resources, both budgetary and extra-budgetary. This means that all public monies irrespective of whether the corresponding cash flows are subject to budgetary control or not (e.g. ,in the case of reserve funds, ear marked funds and other off-budget/extra budgetary funds) should be brought under the control of TSA.

The cash balance in the TSA main account is maintained at a level sufficient to meet daily operational requirement of government(sometimes together with an optional contingency, or buffer /reserve to meet unexpected fiscal volatility

Main Objectives of TSA and Benefits

The primary objective of a TSA is to ensure aggregate control over government cash balances. The consolidation of cash resources through TSA arrangements facilitates government cash management by minimizing borrowing costs. In the absence of TSA, idle balances are maintained in several bank accounts. Effective aggregate control of cash is also a key element in monetary and budget management.

Other objectives for setting up a TSA

They include minimizing transaction costs during budget execution, notably by controlling the delay in the remittances of government revenues (both tax and non tax) by collecting banks, and making rapid payments of government expenses, facilitating reconciliation between banking and accounting data; efficient control and monitoring of funds allocated to various government agencies and facilitating better coordination with the monitoring policy implementation.

The benefits of TSA flow from its objectives

- **Allows complete and timely information on government cash resources**
  In countries with advanced payment systems and an Integrated Financial Management Information System (IFMIS) with adequate interface with the banking system, this information will be available in real time. As a minimum, complete updated balances should be available daily.
- **Improves appropriation control**
  The TSA ensures that the Ministry of Finance (MoF) has full control over budget allocations, and strengthens the authority of the budget appropriation. When separate bank accounts are maintained, the result is often a fragmented system, where funds provided for budgetary appropriations are augmented by additional cash resources that become available through various creative, often extra budgetary, measures.
- **Improves operational control during budget execution**
  When the treasury has full information about cash resources, it can plan and implement budget execution in an efficient, transparent, and reliable manner. The existence of uncertainty regarding whether the treasury will have sufficient funds to finance programmed expenditures may lead to sub-optimal behaviour by budget entities, such as exaggerating their estimates for cash needs or channelling expenditures through off-budget arrangements.
- **Enables efficient cash management**
  A TSA facilitates regular monitoring of government cash balances. It also enables high quality cash outturn analysis to be under taken (e.g., identifying causal factors of variances and distinguishing causal factors from random variation in cash balances)
- **Reduces bank fees and transaction costs**
  Reducing the number of bank accounts results in lower administrative cost for the government for maintaining these accounts, including the cost associated with bank reconciliation, and reduced banking fees.

- **Facilitates efficient payment mechanisms**
  A TSA ensures that there is no ambiguity regarding the volume or the location of the government funds, and makes it possible to monitor payment mechanism precisely. It can result in substantially lower transaction costs because of economies of scale in processing payments. The establishment of a TSA is usually combined with elimination of the "float" in the banking and payment services. Many governments have achieved substantial reductions in their real cost of banking services by introducing a TSA.
- **Improves bank reconciliation and quality of fiscal data**
  A TSA allows for effective reconciliation between the government accounting system and cash flow statement from the banking system. This reduces the risk of errors in reconciliation processes, and improves the timeliness and quality of fiscal accounts.
- **Lowers liquidity reserve needs**
  A TSA reduces the volatility of cash flows through the treasury, thus allowing it to maintain a lower cash reserve /buffer to meet unexpected fiscal volatility.

Custody of the TSA

As the central bank acts as the fiscal agent of the government, the custody of the TSA in most countries is with the Central bank, although in theory, the main account of TSA system may also be held at a commercial bank.

Locating the TSA at central bank offers the following advantages:

- Provides a safe haven for government deposits which minimizes credit risks exposure.
- Aids the efficient management of government liquidity, and facilitates the central bank's coordination of its monetary policy operations in managing liquidity in the economy with government's cash and debt management functions.
- Can facilitate cost effective banking arrangements and speedy settlements (it might be possible to negotiate with the central bank to act as the clearing for government operations, which may speed settlement).
- Allows for clarity of banking arrangements and remuneration policies between the treasury and the central bank (a service level agreement is normally negotiated to clarify obligations and responsibilities when the central bank acts as the clearing house for government operations).

Covering donor funds within TSA

It is still quite common, particularly in low income countries, for donors and external loan providers to require the government to manage their funds through separate commercial bank accounts and not through a TSA.

Although this practice has contributed to a fragmentation in the management of government cash resources (and in the budget process itself), the donors/lenders are not likely to change their behaviour unless and until their fiduciary concerns are adequately addressed. However, in line with the donor's commitment under the Paris Declaration to use country PFM systems, the government should encourage official donors to integrate their resources into the TSA to the extent possible.

There are three possible options for integrating donor funds within the TSA:

- Converting donors' funds into local currency on transfer to the TSA main account. The Health SWAp and Education SWAp is good example of this. Not those donor contributions are made into special FCDA for the SWAp maintained at the Reserve Bank of Malawi.

  Under this option, the TSA system could identify the flow of funds from individual donors used to finance specific projects. For example, this could be done through ledger sub-accounts within a TSA main account. This, being a single –currency TSA, is technically easier to manage.
- **Opening separate foreign currency sub-accounts within the TSA.** There could be one account for each foreign currency, or one each for the main donor currencies. The government's accounts would still be reported in local currency, converting the foreign currency amounts at the relevant exchange rate.
- **Maintaining foreign currency accounts outside the TSA, but bringing the flows within the accounting system.** This option, however, weakens the concept of the TSA, and requires additional administrative processes. Nevertheless, it enables full accounting and reporting of donor flows and their utilization

At a minimum, donors should be encouraged to route final payments through the TSA.

This could be called a "shadow TSA arrangement", since the government is able to account for and report on all donor-funded transactions as they pass through the TSA and before final payments are made to suppliers , beneficiaries, etc., from the respective donor bank accounts with commercial banks. To implement such an arrangement, there would be a need for a framework agreement covering the respective donors, government, central bank (which manages the TSA), and the respective commercial banks (managing donors' flows and payment transactions are to be handled, including their timing.

TSA Structure

Although there are several variants of the TSA structure that conform to the objectives discussed above, they can be broadly grouped into categories: centralized and distributed TSA architectures. The TSA systems established in most countries fall somewhere between these two models and involve various types of bank accounts:

- A purely centralized arrangement is one in which all revenue and expenditure transactions of government pass through a single account generally maintained with the central bank.
- At the other extreme, a TSA could be virtually operational even though line agencies-down to the lowest level in the organizational hierarchy-are allowed retaining separate accounts in the banking system. However, in the latter case, balances in all transactions accounts should be swept into the TSA main account at the end of each day.

114.1 Petty Cash/Imprest Accounts

Introduction

An Imprest is a sum of money advanced to an officer for making cash **disbursements when it is not convenient to do so by presenting payment** vouchers. Imprests are in the nature of advance accounts. Imprest holders are required to render an account and retire the imprest at the end of the period specified or on completion of an activity for which it was issued.

There are three types of Imprests:

(i) Standing or Annual Imprests – issued at the beginning of a financial year and retired at the end of it.

(ii) Special Imprest – issued for a specific purpose and a specific period and retired at the end of the period specified; and

(iii) Travelling Imprest-issued to officers travelling on duty and retired on the officers’ return to station.

General Provision of the Regulation

Control and accounting of impress is regulated in accordance with Part 5.21 of Treasury Instructions and Circular Instructions issued from time to time by the Treasury and the Accountant General. Important provisions of the Regulations are summarized below:

(i) The impress shall be used strictly for the purpose for which it is granted. No personal advances can be made from the Impress.
(ii) Revenue or other public money shall not be credited to the impress account.
(iii) Impress limits shall be regulated by the Accountant General.
(iv) Any Cheques drawn on an impress bank account shall be countersigned by the Officer not below the grade of PO/CEO who has been specifically given control of the impress by the Controlling Officer.
(v) Travelling Impress shall be strictly limited to the expenses the officer is likely to incur on tour and shall account for impress in full immediately after the officer's return to station.
(vi) Each payment from Impress shall be supported by an acquired voucher, cash sales slip or other evidence of payment.
(vii) Sub Impresses and Special Impress shall be recouped regularly.
(viii) Standing Impress shall be retired in full before the last day of the financial year, unless specific authority is obtained from the Accountant General for retirement of the Impress at a later date. An impress shall be renewed only after the previous impress has been retired.
(ix) Standing Impresses not retired on the due date shall be reported to the Accountant General.
(x) Impress holders are personally responsible for the safe custody and proper use of the impress in accordance with the Treasury Instructions and instructions issued by the Accountant General. Any misuse of an impress or failure to retire it on the due date shall be viewed most seriously and render the officer liable to disciplinary action.

Authorization and Control

a. Standing Impresses are regulated by the Accountant General. Applications for issue of Impress shall be submitted to the Accountant General indicating:

   i. the purpose of the impress;
   ii. amount required;
   ii. date of retirement of the impress; and
   iii. official title of the impress holder.

b. The Accountant General authorizes the impress by issuing an authority letter to the Controlling Officer to draw funds from the recurrent budget. A copy of authority letter is sent to the Auditor General.
c. The impress is drawn on a payment voucher (GP 10) from the Ministry's recurrent account.

d. Standing Imprests issued to Ministries and Departments are allocated by debiting standing Imprest Account-50.10.30 and crediting standing Imprest Clearing Account- 80.10.10 which are items, sub-items in a particular ministry.

e. Each Ministry/Department shall maintain a Register of Imprest to record particulars of Imprest Warrant Number and amount of imprest received.

d. All payments made from the main imprest by way of sub imprest, special imprest and travelling imprests shall be supported by an imprest voucher and recorded on the Register of Imprest. The imprest voucher should not be allocated.

f. Ministries & Departments shall retire imprest by debiting the recurrent cash a/c and crediting the standing imprest account.

14.2 Travel Imprest

Controlling Officers may issue internal travel imprest only to officers who are authorized to use their personal vehicles for travel on duty.
Officer travel on duty who considers it necessary to use their personal motor vehicles shall apply for travelling imprest on the authority to leave duty station form.

Applications for travel imprest shall be carefully examined to see that the travel has been approved by the authorized officer and the amount of the imprest is strictly limited to the estimated cost of fuel based on the mileage to be covered.

The subsistence allowance for the nights required to be spent outside the duty station shall be paid in advance after the proposed journey has been approved by the authorised officer. The subsistence allowance paid shall be allocated to voted expenditure and shall not be treated as an imprest. In the event that the trip outside the duty station is curtailed for any reason, the amount of subsistence allowance drawn in excess shall be forthwith refunded on the officer's return to the duty station. Failure to do so shall be viewed as a misappropriation of public funds and controlling officers shall be required to take disciplinary action against the defaulting officers.

Travel imprests shall be retired in full on the officers' return to station either in cash or by recovery from the travel claim of the officer
Details of travel imprests issued shall be furnished to the responsible officer i.e. for processing the travel claims.

On recovery from the Officer's travel claim a cheque for the amount shall be payable to the imprest holder.

In case the full amount of the imprest cannot be recovered from the office's travel claim on return to station, the balance shall be refunded in cash by the officer. In case the officer fails to refund the balance in cash or delays submission of the relevant travel claim, the salaries officer shall be advised to recover the full amount from the officer's salary for the month. The Salaries Officer shall forward a cheque for the principal amount to the imprest holder.

14.2 Records at Cash Offices

Ministries and Departments which have been authorized to operate standing imprest shall keep a Register of Imprest in the form of Annexure (l) to record receipts, payments and balance of imprest from time to time.

The register is maintained as follows:

(i) Record imprest authority number and date imprest is to be retired in the space provided at the top of the form. Record particulars of standing imprests received from the Accountant General in the column of RECEIPTS.
(ii) Record particulars of all imprest issued, travel imprest, in the column of 'Payment' and balance of the imprest in the 'Balance' Column.
(iii) Use a separate line for each entry of imprests received, retired or issued. Imprest recouped shall be entered in a separate register.
(iv) A register shall be maintained and balanced at the last day of the month.

14.3 Imprest Ledger

An Imprest ledger should be maintained in Form GP 80 to record details of each sub-imprest to travelling imprest issued
This is maintained as follows:

(i) A separate page shall be used for each imprest issued, travelling Imprest or sub-imprest.
(ii) Record name and designation of the person to whom imprest is issued and date of retirement of the imprest in the space provided at the top of the form.
(iii) Record particulars of each imprest issued such as; date, cheque number and amount on the left hand (debit) side.
(iv) Record details of imprest retired or recoveries effected from office on the right hand (Credit) side.
(v) Each imprest account should be reviewed monthly and statement of imprests not retired on the due date should be forwarded to the Salaries Section for effecting recovery from the officers concerned.

14.3 Imprest Cashbook

All imprest holders who have been authorized for incurring expenditure shall maintain and Imprest Cashbook (Form GP 94B) in duplicate.

The Imprest Cashbook is maintained as follows:

(i) Record the title of the imprest holder, station at which drawn, authority No. and amount in the space provided at the top of the form.
(ii) Record details of payments made from the imprest in date sequence indicating Imprest Voucher No., Payees name, particulars of the payment, account allocation where applicable and the amount.
(iii) The Imprest Voucher shall be given the same serial number as the relevant entry in the Cashbook. In case payment is not supported by an acquitted voucher or a cash sales slip, payee's acknowledgement should be obtained in the column for 'receipt of Payee.'
(iv) The Imprest Cashbook should be balanced whenever the imprest is recouped or at the end of each month whichever is earlier.

14.4 Procedure for Recoupment of Imprests

Imprests may be recouped at originating offices. The procedures are as follows:

Action by Imprest Holder

(i) Close cashbook and detach original copy.
(ii) Prepare payment voucher (reverse of imprest cashbook) for the amount spent. The voucher should be made payable to the imprest holder.
(iii) Allocate expenditure to respective vote of charge in the allocation block on the voucher.
(iv) Attach all imprest vouchers arranged in serial number.
(v) Enter the payment voucher, allocated to respective Vote of charge in the Vote Book.
(vi) Submit original copy of Cashbook, payment voucher with supporting documents and payment advice to the authorizing pay officer.

Action by Cost Centre – Authorizing Pay Officer

(i) Check Payment Voucher with supporting imprest vouchers and top copy of imprest cashbook.
(ii) Stamp Imprest vouchers, 'paid'.
(iii) Enter amount of Payment Voucher in his Payment Cashbook allocating to relevant votes of charge.
(iv) Issue cheque payable to imprest holder.
(v) Return Payment Advice GP. 36 to imprest holder.

14.5 Votes Book

Impress holders are required to post all payment vouchers in the Votes Book (GP 114) under the respective Votes of charge. In order to keep payment out of Vote accounts for long, impressts shall be recouped monthly.

14.6 Procedure for Retirement of Imprest

Imprests shall normally be retired only at the office at which it was originally drawn.

14.7 Retirement of Imprest Held in Cash

(i) Action by Imprest Holder

(a) Close cashbook, prepare payment voucher and enter payment advice as in the procedure for recoupment.
(b) Prepare General Receipt and paying – in-voucher (GP. 96) in triplicate for total amount of the imprest crediting standing imprest account originally debited.
(c) Hand over balance of cash-in-hand together with top copy of cash book, payment voucher, supporting imprest vouchers, payment advice and paying-in voucher (original and duplicate) to authorized pay officer.
(d) Enter payment voucher in Vote Book.

(ii) Action by Authorized Pay Officer

(a) Check payment voucher and enter in Payment Cashbook as in the recoupment procedure stated above.
(b) Issue General Receipt for the total amount of imprest and record GR number on all copies of GP 96. Give official receipt together with duplicate copy of GP 96 to the imprest holder.
(c) Enter retirement details in the Imprest Register.

14.8 Renewal of Imprest

Application for renewal or augmentation of the imprest shall be signed by Controlling Officer personally and submitted to the Accountant General sufficiently in advance to enable issue of imprest authority soon after 1st July each year.

Application shall indicate the imprest, operating account number and shall be accompanied by a statement in the format below giving retirement details as indicated at 3.0 above. The following information should be included in the application for new imprest.

(i) Total amount of imprest;
(ii) Cleared to voted expenditure;
(iii) Cleared by cash or cheque (Give GR No. and date);
(iv) transferred to Personal Advance Accounts; and

(v) Total amount cleared.

14.8 Annual Returns of Imprest

Controlling Officers are required to submit an annual return in the prescribed form to the Accountant General to reach the office not later than the 14th day of the following month of the new financial year. The return shall be signed at the end of the financial year.

15.1 Bank Reconciliation

Introduction

Bank Reconciliation is an accounting procedure for agreeing the balance as per bank statement with the balance as per cash book.
In terms of Treasury Instruction officers authorized to operate bank accounts shall reconcile the bank balance with the cashbook balance at least once a month.

Purpose of Bank Reconciliation

(i) To analyze the difference between the cashbook and the bank statement.
(ii) To detect and correct errors committed by the bank or cash office.
(iii) To detect possible misappropriation of funds.
(iv) To recognize or identify appropriate expenditures or receipts made directly by the bank.
(v) To ensure that Commercial Bank's claims for reimbursement are not duplicated.

Books and Documents required for Bank Reconciliation

(i) The Combined Cashbook;
(ii) Daily Cash Balance Statement;
(iii) Bank Statement with:-

(a) Paid cheques printed at the back;
(b) Credit notes, bank deposit slips; and
(c) Debit notes pertaining to bank charges, bank interest.

(iv) List of outstanding cheques. (Acc.41); and
(v) List of bank lodgements not cleared by the bank.

Causes of Differences between Cashbook and Bank statement Balances

Differences can arise because of:-

(i) Un-presented cheques;
(ii) Deposits credited by the bank not recorded in cash book;
(iii) Bank charges;
(iv) Standing Orders to bank to make payments;

(v) Money paid direct into bank by revenue collectors which has not been entered in the Cash Book;
(vi) Wrong debits and credits by the bank; and
(vii) Errors when posting in Cashbooks.

Procedures

An officer other than the one responsible for maintaining the Cashbooks shall prepare Bank Reconciliation Statements. The procedure shall be as follows: -

(i) Check that all paid cheques or debit notes are printed or enclosed respectively, to support payment entries on the bank statement.
(ii) Check that bank deposit slips are enclosed to support credit entries on bank statement.
(iii) Check each entry in the combined Receipts and Payments Cashbook against entries on the Bank Statement.
(iv) Tick entries appearing on both Cashbook and Bank Statement.
(v) Check the un-ticked debits on the bank statement with the list of un-presented cheques.
(vi) Check un-ticked credits on bank statement with previous list of "Credits in Cashbook not on bank statement" and tick off entries appearing on Cashbook and Bank statement.

(vii) Prepare lists of: -

(a) Unpresented cheques (Debits in the Cashbooks not on the bank statement). Use form ACC.41.
(b) Credits in Cashbook not on the bank statement.
(c) Debits on the bank statement not in Cashbook.
(d) Credit on bank statement not in Cashbook.

(viii) Prepare a Cash Book Summary:

(a) The purpose for Cashbook Summary is to test the accuracy of cashbook balances for the month
(b) Procedure for preparing Cashbook Summary: -

1. Add all payment recorded in Cashbook for the month
2. Add all receipts recorded in Cashbook for the month (e.g. Reimbursement)

(ix) repare a Bank Reconciliation Statement using the following format below: -

CASH BOOK SUMMARY

Opening Balance	x		
ADD: Receipts	x		
LESS: Payments	(x)		
Closing Balance	xx		
RECONCILIATION			
Balance per Cashbook		**x**	
ADD: unpresented cheques		x	
Credits on Bank Statement not on Cashbook	x	**x**	
			xx
LESS:			
Credits in Cashbook not on Bank Statement	x		
Debit on Bank Statement not in Cashbook	x	**x**	
Balance as per Bank Statement			**xx**

(x) The statement shall be signed by the officer preparing it and countersigned by a senior officer.

Follow-Up Action

After the Bank Reconciliation Statement is prepared it is necessary that adjustments required shall be promptly made for correcting errors and omissions revealed by the Reconciliation Statement. These are discussed below.

Un-Presented Cheques

The List of Outstanding Cheques shall be checked and ticked with following month's bank statement. Cheques that have become stale for example after a period of six months from the date of issue shall be brought on charge by preparing a General Receipt and GP 96 allocated as follows: -

(i) Cheques becoming stale in the same year shall be credited to the Head/Vote and Sub-item originally debited.
(ii) Cheques becoming stale in the next financial year shall be credited to appropriate Revenue Head.
(iii) Cheques issued on Below-the-Line Accounts shall be credited to the account originally debited regardless of when the cheque was issued.
(iv) Enter the General Receipt in the Cashbook in the usual manner.
(v) Keep a note against the relevant entry of the stale cheque on the List of Outstanding Cheques.

Procedures for Replacement of Stale Cheque:

(i) Check for the official copy of the General Receipt that the stale cheque was brought on charge.
(ii) Prepare a payment voucher (GP 10) charging the same vote/Head credited with the amount of the stale cheque. The General Receipt (official copy) shall be attached to the payment voucher.

(iii) Enter the replacement cheque and payment voucher in the Cashbook as usual.
(iv) If the stale cheque was credited to Revenue and the replacement cheque is issued in a subsequent financial year, charge Head 002…. Miscellaneous Statutory expenditure – Refunds and Repayments.
(v) Where the stale cheque is credited to a Revenue Head, the issue of replacement cheque can be authorized only by the Accountant General. In this case, the payment voucher shall be submitted with a covering letter to the Accountant General and the official receipt shall invariably be attached to the payment vouchers.

List of Credits on Bank Statement Not In Cashbook

(i) The Bank sends deposit slips and credit notes together with the bank statements. These shall provide sufficient information to identify the deposit. If information is insufficient, enquire from the bank or where necessary, from the person who deposited the money.
(ii) If the deposit pertains to the account, issue a General Receipt and post in the Receipts Cashbook as usual.
(iii) If the deposit is not for the account ask the bank to reverse the entries.

List of Credits on Cashbook Not On Bank Statement

Check the date on the bank deposit slip. If the deposit was made after the last date on the bank statement, wait until the next bank statement is received. If the amount does not appear in the next bank statement, enquire immediately from the bank why the amount deposited has not appeared. If it is an omission or error on the part of the bank, ask the bank to correct its books. The amount shall remain outstanding until the next bank statement is received.

List of Debits in Bank Statement Not In Combined Cashbook

The bank shall provide the debit note or paid cheque which explains the nature of the payment:

(i) Find out if the payment is a valid charge to the account. If not, ask the bank to reverse the entry.
(ii) If the payment is genuine, ascertain the account allocation to which it shall be charged.
(iii) Prepare a voucher charging the appropriate Head or Vote.
(iv) Post the voucher in the Payments Cashbook.
(v) If a cheque appears on the bank statement but not in the Cashbook, check the payment voucher to make sure that the cheque is genuine. In that case rectify the omission by entering the cheque in the current months Cashbook and keep a note on the List. If the cheque is not genuine, report the matter immediately to the Head of Accounts.

Errors in Recording Cheque Amount in Cashbook

Normally such errors shall not arise if the Cashbook is balanced daily. However, if the amount of the cheque is overstated or understated in the Cashbook, the error shall be reflected on both the list of Outstanding Cheques and List of Debits on bank Statement not in Cashbook. To correct the error, proceeds as follows:-

(i) First, locate the relevant copy voucher and verify the correct amount of the cheque.
(ii) If amount of cheque is overstated to adjust, proceed as follows:
(a) Bring on charge the amount in the Cashbook crediting the same vote
(b) Re post the correct amount on the Payment voucher in the Cashbook.

BANK RECONCILIATION STATEMENT FOR THE MONTH OF JUNE

(i) Close the Cashbook on 30th June, in the usual manner.
(ii) On receipt of the bank Statement for June prepare a preliminary Reconciliation Statement and adjust the Cashbook by posting items on the bank statement not in the Cashbook. Then recast the closing cash balance and rule off the Cashbook.
(iii) Prepare a revised bank reconciliation statement for submission to Controlling Officers, Accountant General and Auditor General.

SUBMISSION OF RECONCILIATION STATEMENT

(i) All Accounts holders shall produce their Reconciliation Statement within 7 days of receipt of the Bank Statement.
(ii) Bank Reconciliation Section shall forward reconciled statements each month to the Controlling Officer with copies to the Accountant General, (Government wide Reconciliation Section) and the Auditor General.
Retirement of Imprest

Before submission, the statement shall be checked and signed by the Officer-in-Charge of the Cash Office. **t of Imprests for K…. Issued on**

The Impress for K …………………………… issued under Imprest Warrant No: ……….
………………/ Cheque
No:…………………………..dated…………………by…………
………………………………….. has been retired in full to Treasury Cashier
…………………………………………………. On ………………………….

Copy of GR No; ……………………………………………………Date …………………………………

Paying-in-Voucher No. ……………………………………………………….. are attached.

16.1 End Chapter Summary

This chapter has focused on the Cash Management in public sector that includes, cash flow forecasting, cash inflow control, cash outflow control, determination of cash balances, advances and loans, public debt redemption funds, public debt sinking funds, investments and deposit disclosures, ways and means advances, credit ceiling authority.

You learned in detail that in the public sector accounting and finance, cash management is principally concerned with analysing liquidity across the entire accounting entity. It involves examining all resources of the entity, matching these resources against expenditure commitments, contingent liabilities and others. You were able to learn in some government units revenues are matched against expenditure on a weekly basis and other units practice monthly or quarterly basis of analysis. The importance of verifying the trend of receipts or revenue flow against cash outflow is to minimize borrowing and ensuring a free flow of activities in government unit.

You also focused on the need for effective cash management in government departments and agencies is recognition that government resources flow into Ministries, Departments and Agencies (MDAs) in a seasonal manner or pattern. Without cash management it is very difficult for the Secretary to the Treasury and the Accountant General to make informed financing or investing decisions. For these decisions all MDAs are expected to prepare Cash-flow forecast as part of their budgetary control system. All revenue agencies are to prepare revenue projections, just as the Ministry of Finance also prepares a schedule of statutory payments and non-tax revenues.

Sample Questions

1. Explain what a cash flow forecast is, the importance of preparing a cash flow forecast and uses of a cash flow forecast.
2. Explain the working mechanisms of Credit Ceiling Authority System and the reasons it is popular in Malawi Government Public Service.
3. Explain the main objectives and benefits of Treasury Single Account.
4. Briefly explain the advantages and disadvantages of Treasury Single Account

Chapter 12

CHART OF ACCOUNT

12. 1 Introduction

A well-functioning public finance management (PFM) framework includes an effective accounting and financial reporting system to support fiscal policy analysis and budget management. Among other things, government business processes and decisions are anchored on the flow of specific financial information/data between various stakeholders. Providing such information on government activities is an important function of the accounting and reporting system which should capture, classify, record, and communicate relevant, reliable, and comparable financial information for at least the following purposes: budgetary accounting and reporting, including reporting of actual against approved budget estimates; general purpose financial reporting; management information; and statistical reporting. This system underpins the collection and use of public resources and informs policy makers, managers of government agencies, parliamentarians and the public at large on government policies and operations.

The Chart of Account (COA) is the lynchpin of a government's accounting and reporting system and serves as a key tool to meet its business requirements. Recording and reporting financial information requires keeping a chronological log of transactions and events measured in monetary terms and classified and summarized in a useful format based on the business needs of the organization. This is achieved with the help of a COA. Raw data is not very useful until it has been appropriately classified and summarized into meaningful information by using an appropriate COA. With a poorly designed COA, straightforward tasks such as the preparation of standard reports become onerous and often require human and spreadsheet intervention. It becomes difficult to retrieve and reconcile the required financial data and the financial reports become unreliable.

12.2 Learning Objectives

At the end of this chapter, students will be able to:

a) Explain the role of Chart of Accounts in a Public Finance Management system.
b) Explain the objectives of Chart of Accounts
c) Explain the key principles and factors in designing a Chart of Account
d) Critique a Chart of Account.

12.3 Definition of a Chart of Account (COA).

A COA is a critical element of the PFM framework for classifying, recording and reporting information on financial plans, transactions and events in a systematic and consistent way. The COA is an organized and coded listing of all the individual accounts that are used to record transactions and make up the ledger system. In particular:

• The COA specifies how the financial transactions are recorded in a series of accounts that are required to be maintained to support the needs of various users/stakeholders.
It defines the scope and content of these accounts for capturing the relevant financial information. This series of accounts is called the General Ledger (GL) and subsidiary ledgers, which record all transactions as per specifications in the COA.
• The COA provides a coding structure for the classification and recording of relevant financial information (both flows and stocks) within the financial management and reporting system. The classification structure should not only meet the legal and administrative requirements for budget management and financial reporting, but should also conform to certain international standards on financial and statistical reporting. For budget management purposes, the COA should meet the requirements of planning, controlling and reporting of budgetary allocations/appropriations as well as internal management needs of budget units and/or cost centres.

12.3 The COA configuration represents the hierarchical structures of groups of classifications of information requirements

Each classification group is often called a segment and identifies a discrete information requirement for management, reporting and control purposes. Each segment can be combined with the others to create financial reports and enforce controls with a view to meeting the needs of various users and complying with the laws and regulations in the PFM

12.4 **Commonly Used Classifications**

Common classifications used to capture the relevant information required by various users/ stakeholders include:

• Administrative or organizational classification.
• Fund classification (which may include donor classifications)
• Program classification.
• Classification of Functions of Government (COFOG).
• Economic (or Natural account) classification.
• Government Financial Statistics (GFS) classification (usually based on the IMF.
GFSM 2001). Note that mainly, the Economic Classification and GFS are the same or the GFS classification is derived from Economic Classification.
• Location or geographic classification.

12.5 Coverage of the Chart of Account

For effective management, the COA should cover all transactions (flows) and balances (stocks) of the reporting entity for budget management and general purpose financial reporting**.** The COA should facilitate the required control features and management information requirements at different stages of budget execution; and reporting to various internal and external stakeholders. With an IFMIS, the needs of all stakeholders can be met with one unified or common COA. A unified COA is configured with a hierarchical set of linked codes based on parent-child relationships, with lower level codes being used by individual accounting units and higher level codes used for consolidation of accounting/financial information.

12.6 The Role of Chart of Accounts in Government Systems

The COA's definition and use in government systems are influenced by different PFM traditions. Countries have developed different approaches to address the information needs of governments and as a result actual practices differ across countries. This is also due to the fact that each country, based on its legal and administrative tradition, needs to have systems that cater to specific control and information requirements for government budget management. However, despite the unique requirements of individual countries, there is sufficient commonality to set the underlying principles for an effective COA.

12.7 Objectives of Chart of Account

The COA, which plays a key role in government financial management, accountability and financial reporting frameworks, should meet seven major objectives.

• ***Control***. This includes budget appropriation control, in-year allotment/warrant control, fund control, management control and other fiduciary controls.
• ***Accountability***. The executive is held accountable to parliament and the public at large, and the managers of individual government agencies are internally held accountable in terms of their legal mandate/responsibility. This is achieved, among other things, by tracking the transactions that are specific to each administrative entity the accountability of which needs to be enforced through appropriate audit trails.

The COA configuration needs to respond to these accountability requirements:

- ***Budget management***. This includes budget formulation, execution and reporting (in year and end-year) and day-to-day monitoring of the budget. Implementation of a comprehensive system of budgetary accounting for tracking appropriations and their uses at each stage of the expenditure cycle should cover authorized appropriations, in-year allotments/apportionments, any increase or decrease in appropriations during the year through *virements* or supplementary budget authorizations, expenditure commitments, obligations/liabilities incurred at the verification/delivery stage, and payments. Some additional information may also have to be captured to enable reporting on a results based budget (in combination with non-financial information on performance). The budget classifications define the structure of the COA codes/sub-codes that is related to government budgetary revenue and expenditure operations.

• ***Financial planning and management***. This includes financial planning, cash management, and asset and liability management. From the perspective of COA design, it is important to know how the assets and liabilities should be categorized; and at what aggregated level the cash and other liquid assets should be monitored.

• ***Management information***. Depending on their internal management structure and business needs, individual line agencies may require information in greater detail and frequency for the preparation of various reports to support detailed cost monitoring, internal control and day-to-day decision making. As some of these information/reports could be specific to the line agency concerned, it may not be necessary to track such information for the whole of government through a generalized COA. However, individual line agencies/accounting units could track such information by using their own detailed accounts codes as long as these are linked to higher level codes which are used for consolidation of accounting/financial data across the whole reporting entity.

• ***General purpose financial reporting***. This includes the preparation of financial statements and reports in accordance with national and/or international accounting standards (such as the International Public Sector Accounting Standards, IPSAS). General purpose financial reports are prepared to provide their users (e.g., parliament, public and creditors/donors) with information about the financial reporting entity which is useful for making and evaluating decisions about the allocation and use of resources.

When general purpose financial reports meet this objective, they will also be a means—in addition to budget reporting—by which managers of public resources discharge their accountability to those users.

• ***Statistical reporting***. Statistical reports (e.g., GFS reports) are generated to facilitate macroeconomic analysis and surveillance, and international comparisons, as well as for reporting to international organizations such as the IMF. Data used for statistical reporting should be generated from the underlying accounting system via a well-designed COA. A COA that is compatible with the IMF Government Finance Statistics Manual (GFSM) is, therefore, desirable to ensure that the economic classification used in the COA is the same as (or at least could easily be mapped to) the GFSM.

12.8 Key Principles and Factors for Designing a COA

Designing a COA is one of the first, if not the first, task that is performed when setting up a budgeting and its associated accounting and financial reporting systems. The COA should seek to meet the information/reporting requirements of all stakeholders, not just the ministry of finance or treasury, e.g., members of parliament/legislature, ministers/deputy ministers, heads of departments/agencies, program managers, auditors, etc., who all have varying roles and responsibilities and require financial and non-financial data for a variety of purposes. The definition, use and maintenance (over time) of the COA segments are critical to ensure data integrity and usefulness of reports coming out of the financial accounting and reporting system. The list of segments/classifications need not be limited, but caution must be taken not to overcomplicate the lists as this can lead to a loss of data integrity.

12.9 At least seven core principles can be identified for effective development, implementation and maintenance of a COA.

• ***Comprehensiveness***. The COA should be comprehensive enough to capture all the required/relevant information and it needs to reflect not only the budget framework but also the accounting framework. The budget classifications should not be different and should be embedded in (or harmonized with) the government's accounting classifications.
This is because the accounting and reporting system should be the primary source of financial information for reporting on budget execution. The accounting and reporting system may require additional classifications to meet the financial management needs and comply with accounting standards.
• ***Adequate granularity***. The segments and sub-segments of the COA should be designed to facilitate many possible combinations of data elements necessary for control and reporting purposes. Each segment should have sufficient detail to meet all control, accountability, management, and reporting needs of various stakeholders.
• ***Mutual exclusiveness.*** The COA segments and their attributes should be defined in a way to make them mutually exclusive and avoid confusion in transaction recording and reporting.
• ***Avoiding redundancy***. There is no need for an independent segment in the COA if the related information could be derived from another segment. Where there are multiple classifications, it is useful to explore the relationships between those classifications. For example, the requirements of GFS can be derived from the economic classification and the United Nations Classification of Functions of Government (COFOG) can often be derived from either the administrative classification (if each lowest level administrative unit in a hierarchical administrative segment discharges a unique function) or the program classification. When relationships are established, it also helps to minimize the volume of data capture (or the number of key strokes for a data input operator in a computerized IFMIS) which in turn reduces the opportunity for data input error.
• ***Internal consistency***. The logic applied in designing the hierarchical structure of COA segments should be internally consistent. Using a consistent numbering system and structure helps make the chart user friendly and reduces the chance of coding errors.
• ***Unified framework.*** Sometimes individual accounting units are allowed certain flexibility in developing their own specific accounting codes at a more detailed level to capture/ record specific information, e.g., through subsidiary ledgers, for internal management and control of their units. However, the COA framework should be unified to ensure that at least the information at the aggregated level uses the same accounting classification to ensure consistency between the two sets of accounting data.
• ***Scalability***. The COA should allow flexibility for future additions and changes as far as possible. It should provide for capturing additional information in future, particularly when such information has been anticipated/identified as part of an ongoing PFM reform program. Providing

room for growth, change and future reporting requirements can help ensure a COA remains relevant for a long period of time as the business environment, regulatory requirements and reporting needs evolve. Appropriate planning during the development stage can help design a COA with open account range to accommodate future legal and business requirements.

In addition to the above core principles, there are several other factors that need to be taken into consideration while configuring/designing a COA. These include:

• ***Institutional framework for financial transaction processing and accounting.*** A key issue to consider is whether the transaction processing system is centralized or decentralized.

Even under a centralized payment system (i.e., expenditure payments to beneficiaries/suppliers are made by a centralized unit in the ministry of finance/treasury) individual budget units are usually responsible for authorization of commitments and issuance of payment orders. There is thus a need to ensure that the recording/accounting at the commitment and payment order stages are well integrated with the financial accounting at the payment stage to ensure a seamless tracking of transactions covering the full budget execution cycle. This aspect needs to be taken into consideration while configuring the COA and designing the IFMIS.

• ***Transaction processing and accounting platform.*** If the COA is to be implemented as part of the GL module of a computerized IFMIS, some specific issues need to be addressed.

• ***Accounting basis.*** The accounting basis (cash or accrual) used for budget execution reporting and financial reporting will influence the COA design. It is not unusual to find a cash-based budget with accrual-based financial reporting. The issue here is how to design an integrated COA that conforms to accrual-based financial reporting standards (such as IPSAS) and can also be used for control and reporting of a cash-based budget.

To avoid any ambiguity, the accounting policies should also be defined simultaneously with the COA. If the government is in transition from cash to accrual accounting, the COA should be set up to enable progressive capture of accrual information in line with the transition strategy.

12.10 Key Steps in Developing a COA

The development and implementation of a COA should involve the following key steps:

a. Carrying out a comprehensive business needs assessment

The COA can only be properly configured after a comprehensive business needs analysis has been undertaken. The business needs analysis will define who the stakeholders/users are, their tasks, goals, functions and what information they want from the system.

The business needs analysis should draw from the country’s PFM framework and identify the stakeholders/users’ information requirements to be taken into account in designing the COA to ensure that the accounting and reporting system can record, control and report on the government's activities accordingly.

b. The three primary classifications that are essential for controlling, managing and reporting on the implementation of the government's budget are**:**

- **Administrative.** Governments establish organizations (e.g., ministries, departments, agencies and other budget-funded entities) to deliver government functions. The administrative classification is essential for accountability purposes and identifies the organization/entity that is responsible for managing the resources allocated to it for implementing specified policy objectives, such as the ministries of education and health or, at a lower level, schools and hospitals.
- **Functional/programmatic.** Governments make decisions about what they want to do and why they want to do it. In other words, we talk about the functions of government or the programs the government wants to deliver to society and/or to impact the economy.
  The formulation of policy and efficient allocation of resources require information on government programs and COFOG. COFOG can be derived from the program classification only to the extent that programs do not straddle functions and/or sub-functions

  Economic. Governments collect revenue and spend money on delivering their functions.

The economic classification includes classification of revenue, expenditure, assets and liabilities and retained earnings. This classification is the basis for preparing government finance statistics (GFS).
There may be need for other classifications to meet the data/information requirements of budget managers and other stakeholders. These may include location, project type, entity type; outcome, output, and source of funds (see the Diagram in Annex, which includes Fund and location segments). Details of vendor or customer type should not be in the GL COA. These details can easily be included in the subsidiary ledgers or in the profiles stored in other modules of the IFMIS. Where there are needs for multiple classifications, it would be useful to explore the relationships between them to see whether some classifications could be derived from others to avoid redundancy between COA segments.

12.11 Structuring data attributes and developing COA segments

The COA segments and the hierarchical levels within each segment should be defined.
Segment relationships diagrams are useful to establish relationships between segments (e.g., mapping to function and mapping to GFS structures) and hierarchy between different levels within each segment. Reserved segments (to meet anticipated future requirements) are shown on the side to emphasize that the reserved codes will be invisible to users for now. The purpose and structure of each COA segment should be clearly defined and classifications and sub-classifications within each segment should strictly adhere to the definition.

The transaction level of each segment is the lowest level at which actual data is recorded (or entered into the IFMIS database). A distinction, therefore, needs to be made between the COA and the transaction code. While the COA is a structure of integrated set of codes that consists of several logically-designed and hierarchically structured segments, the transaction code—sometimes called the *Coding Block* in system design—is a combination of segments that describes various attributes of a specific financial transaction or balance. If one segment could be mapped from another based on a clearly established relationship between the two, the transaction code will incorporate the lowest level of only the primary segment, as the secondary segment (s) could be derived through a mapping table.

12.12 The COA and its segments should use basic logic and account definition.

Account definitions and their underlying logic provide clarity as to how specific transactions and balances should be recorded. Caution must be used not to overcomplicate the numbering sequence and structure. If a structure is too complex, it will require more time by users to identify the proper accounts. Creating too many specific account ranges can quickly limit open ranges of accounts. When the chart runs out of open ranges, users will be forced to abandon the structure and the basic logic will be lost. A simplified but structured numbering system of accounts can facilitate a COA that is easy to use and maintain.

Eliminating redundant and duplicate accounts reduces the potential for confusion in transaction recording and reporting.
Speed and efficiency is also improved if users have fewer accounts to post transactions or reconcile and explain variances at the end of the accounting/reporting period.

The exact number of COA segments, digits of each segment, numbering ranges and parent-child relationship can only be determined after a comprehensive business needs analysis is undertaken and system functionality is decided. Designers of a COA should resist deciding on these factors until after the business needs analysis is complete.

12.13 Developing a COA - Accounts Classification, Type and Ledger System

The COA should reflect the budget classification and other classifications. A well-designed COA includes budget classification (revenue, expenditure and borrowings) plus asset, liability and equity accounts. The COA also includes any internal management classification such as departments, cost centers, and regions. Each classification should have its name, a brief description and a code or number assigned to aid in recording, classifying, summarizing, and reporting transactions. Each classification is organized around a segment.

Each hierarchical segment of the COA can be further analyzed and sub-divided in the form of a parent-child relationship (summary and detail data requirements). Each of these sub-divisions of a segment is given a numbering sequence to create sub categories.

For example, the *program* segment could be divided into *sub-programs* which in turn could be broken down into *projects and/or activities*. Similarly, the ministry of finance (under the administrative segment) may have the budget and treasury departments at the second level and so on.

COA is the basis of the general ledger (GL). COA represents the structure of the GL. The GL is an accounting book which uses the COA structure to record, report, and reconcile financial data. The coding structure of any subsidiary ledgers in use, such as the *Accounts*

Payable module of an IFMIS is mapped to the respective control accounts in the GL. For example, the GL will have a control account for *Accounts Payable* while the *Accounts Payable* system will have accounts of individual suppliers. Each purchase would be recorded in the *Accounts Payable* subsidiary ledger system and the total recorded in the GL. At any time, the GL balance can be proven against the details in *Accounts Payable* subsidiary ledger. It is not uncommon to come across officials who think and say that they have a GL with a comprehensive COA, but, in fact, it might only be partial where transactions are recorded in a variety of systems that do not roll up to the control accounts of the GL. In effect, this is a fragmented system which requires significant intervention to prepare useful financial reports and even then the accuracy of data may be questionable.

Account types (also called natural accounts). Revenue and expense accounts are netted off at year-end and the surplus/deficit is transferred to net worth account.

Asset and liability.

Accounts balances are carried forward to next year. Revenue, expense, asset and liability accounts are further classified using economic classifications.

12.14 Configuring the COA in an IFMIS

Governments are increasingly using IFMIS to modernize their accounting and reporting systems. An IFMIS can improve the PFM framework by providing real-time financial information that managers can use to formulate budgets, manage resources, and administer programs and supporting the preparation of financial reports and statements. A well implemented IFMIS can help governments achieve effective control over public finances and enhance transparency and accountability. Therefore, it must be designed to support the function of the public sector and handle the complex structure of budget organizations as well as to ensure compliance with budget laws and public finance rules.

Configuration of the IFMIS is not limited to the GL module and the COA design should take account of the impact of using other IFMIS modules and subsidiary ledgers.
The GL module is referred to as the backbone of an IFMIS and the COA provides the structure of the GL. An IFMIS usually includes the GL module and at least the *accounts payable* module. However, there are a number of other modules such as *accounts receivable, cash management, procurement* and *payroll* that are frequently used to enhance the system functionality. In any case, the linkage between the GL and subsidiary ledgers (associated with other IFMIS modules) should be clearly established. Subsidiary ledger configuration combines with the COA in the GL to provide a comprehensive mechanism to record, control and report on the activities of the government to concerned stakeholders.

12.15 Basic guidelines for a computerized COA

The COA is the hub of any IFMIS. While the business/user needs analysis is a critical element to developing a COA and several underlying principles should be followed (see Section III), the following issues need to be specifically considered in the context of developing/redesigning the COA for an IFMIS:

(i) establishing one global/unified chart of accounts;
(ii) (ii) using simple and basic logic and limiting the number of accounts;
(iii) (iii) deciding the accounting basis – cash, accrual or in transition (from cash to accrual);
(iv) (iv) understanding and using the vast functionality of modern computer systems; and
(v) (v) scalability to provide room for future growth.

Creating a global or a unified COA establishes a foundation for consistency in terminology and serves to eliminate redundant accounts. It provides a basis for consistency in budget and accounting policies and procedures, including terminology used across government.
Moreover, IFMIS being an integrated system with various modules of software to cater to specific functional requirements, its functionalities are provided in a coordinated manner based on the same global/unified COA. The data captured in one module are used in others, thereby eliminating duplicate data entry and reducing the occurrence of errors. Moreover, consolidation of individual budget entities into one whole-of-government reporting entity can be largely automated and simplified if a global/unified COA is used.

In cases where individual government organizations are allowed to implement their own systems, there should still be a unified COA framework. Some countries choose to have one IFMIS implemented country-wide while others allow individual government organizations to have their own systems to meet their specific needs. The lower levels of government in a federal set up may not use the same system as the central/national government. Although different COAs may be used by the individual entities if necessary, they should be integrated in a unified COA framework so that the government is able to consolidate all the transactions into one set of financial statements.

The vast functionality available in an IFMIS should be leveraged to simplify the COA.
A key decision issue is how many and which of the IFMIS subsidiary modules are essential and need to be implemented. Properly designed segments and logical coding structures can be used with system functionality to produce a vast range of standard reports without the need for extensive customization. Given the sophistication of most modern systems, it may be possible to develop a single GL that can meet the needs of all stakeholders, but a balance needs to be struck between the level of detail contained in the GL COA and the level of detail in subsidiary ledgers of other modules. For an effective and efficient GL COA, as much detail as possible should be held in subsidiary ledgers. For example, names of suppliers and revenue providers should not be held in the GL. These details can and should be held in the *accounts payable* and *accounts receivable* modules. Similarly, details of assets could usefully be held in an asset register and not in the GL. This is an important issue because an overly complicated COA may entail significant problems with generating reports from the system.

To make the best use of the reporting functionality of an IFMIS, data normalization is essential. In the design of a relational database management system (RDBMS) such as an IFMIS, the process of organizing data to minimize redundancy is called "normalization". If data normalization techniques are not used, the reporting functionality may become complicated and the redundancy of data structure may impact the reliability of the data and therefore the reporting framework. For most users' reporting needs, standard reports which are run directly from the IFMIS using the coding structures without the need for customized programming should be the first option. Reporting functionality should provide access to separate sets of data (in related tables) for comparison of budgeted and actual amounts.

Amending (if necessary) the underlying legal and regulatory framework
One of the frequent reasons behind preparing a new COA is to unify the disparate accounting and reporting structures that have evolved over time. However, even a well structured and configured COA will from time to time require changes to meet new and emerging business requirements.
It is essential to have in place clear institutional, legal and procedural frameworks to prevent the COA structure from becoming fragmented. Clear assignment of institutional authority to approve any changes to the COA structure (e.g., a single point of authority such as the Minister of Finance/Accountant General) and a clearly defined legal/regulatory framework that defines the roles and responsibilities of different actors and specifies the procedure for adopting changes to the COA structure are essential to ensure that the effectiveness and the original integrity of a well designed COA are not lost over time.

The following principles should be followed to ensure that the COA continues to be used as a unified and agreed structure.

• Designated process and timeframes to propose changes; to have them reviewed by key stakeholders; and to signoff and publish changes, so that all users are advised.
Any cyclical process for updates should be no more frequent than quarterly.
• Identifying the impact of any proposed changes to the COA, including whether they fit with the core principles and agreed structure of the COA.
• Clear institutional allocation of authority for authorizing changes to the COA.
• All changes to the COA must be consistent with the configuration, i.e., there will be no departure from how the segments are defined or the parent-child relationship .

Data migration

A plan for data migration needs to be developed to ensure that historical data is not lost or corrupted when a new or updated COA is implemented. Effective and efficient migration of existing data from the old to the new COA is one of the cornerstones for the success of the new COA and its improved reporting capability. This process may take a considerable amount of planning and is often not given its due. As a result, poor quality data may undermine the usefulness of the new/updated COA. It is important for both the technical and functional users of the
IFMIS to be involved in this process. This process would also allow reconfiguring the historical financial reports to align them with the new structure, thus providing useful historical data for comparison purposes.

Capacity building of COA users and change management

For the COA to achieve its desired impact of facilitating improved budget management and financial reporting, all users across government should be adequately trained.
Training staff is a fundamental requirement when introducing any modification to procedures and processes. The introduction of changes to the COA must be communicated effectively to the relevant staff throughout the government.
An effective change management strategy also needs to be developed to implement the new COA and associated reforms in the accounting and reporting system. As all changes bring uncertainty and could potentially provoke powerful opposition/resistance from key stakeholders, a change management strategy should be developed to explain why the change is necessary and what objectives are sought to be achieved. Any perceived risks and/or uncertainties should also be adequately addressed. The development of the change management strategy should involve the following key steps:

• securing explicit support from the highest levels of government at an early stage of reform;
• identifying the organizational changes necessary to implement the new processes and changed rules and procedures, clearly articulating the benefits of the changes;
• identifying documentation changes, including input (e.g., payment vouchers) and output documents (e.g., management reports, budget monitoring reports, etc.);

• identifying human capacity development needs and developing a plan, including a training program, to address existing capacity constraints;
• identifying key change agents in the ministry of finance and line agencies; and
• developing a plan for sensitizing various users to the new systems and procedures.

Overview to the Current Chart of Account in Malawi

The current Chart of Accounts which was adopted in the financial year 2010-2011 has 35 digits including three hyphens which divide the digits into 4 segments. The four segments include 12 categories.

2010 Chart of Account Structure			
Segment	Category	Attributed Length	Length of Category segment
1-Administration 14 digits			
1	Vote and Sub vote	3	3
2	Budget type	1	1
3	Cost Centre	3	3
4	Division (not in use)	2	2
5	Donor	2	2
6	Project	3	3
		-	
2-Program Classification 5 digits			
7	Programs	2	2
8	Sub Programs	2	2
9	Sub Sub Programs	1	1
		-	
3-MDGS Output Classification 6 digits			
10	Objectives-(Sub-sub theme)	2	6
	Outputs	2	
	Activities	2	
		-	
4-Economic(GFS) Classification 7 digits			
	Chapter	1	1

11	Sub Chapter	2	2
12	Item	2	2
	Sub item	2	2
Total		35	35

The current Chart of Accounts includes digits for Division and GFS Chapter, which were not included in the previous Chart of Accounts which became effective for the 2011–2012 fiscal year.

The current Chart of Account is distinguished by use of organizational, economic and functional classifications.

Challenges with the Current Malawi Chart of Account:

a) The third segment of the chart of account cannot be presented in component or sub component structure without further exportation and analysis in excel spreadsheets.
b) Funding source is not included in the chart of account to segment the financing of government activities.
c) The current system may not be able to accommodate multiyear budgeting or report multiyear commitments and obligations without further customization to provide for a multi-year chart of accounts.
d) The chart of account structure has 35 digits including three spacing hyphens which make increase the risk of errors in data entry.
e) The classification of donors as local or external donors is not provided in the chart of account. At the same time, the chart of account does not provide further classification for bilateral and multi lateral donors.

Detailed description of the current Chart of Accounts

The current Chart of Accounts comprises four segments, the Administration Segment, the Program Classification, the MDGS/MTEF (Output Classification), and the Economic Classification (GFS).

Segment 1

Administration Segment with 14 digits, consisting of:

The Vote/Sub Vote: This sub segment has 3 digits, the first two digits represent a Ministry and the third digit represent the sub- Ministry or Sub-Vote or Department. Vote 3 digits.

The segment has three classes of Votes:

- 001-049 Statutory Votes
- 050-599 Central Government
- 600-999 Assemblies (Cities, Towns and Districts).

- **Budget Type:** One digit is used for budget type. Budget Type 1: Recurrent Expenditure, Budget Type 2: Development Expenditure, Budget Type 3: Recurrent Revenue (Tax and Non-Tax), Budget Type 4: Resources (Grants), and Budget Type 5: Below the line expenditures.
- **Cost Centre:** 3digits are used for Cost Centre from 001 to 999. Code 001 is common to all votes and represents headquarters as a Cost Centre. The other codes are not common across MDAs
- **Division:** Currently this category is not in use and has 2 digits
- **Donor:** two digits are used for this category to identify a donor. If it is Malawi Government default codes of 00 are used.

Segment 2. Programme Classification

- Programme Classification has 5 digits
- **Programme** : Programmes are unique for the entire government and have 2 digits
- **Sub Programme** : Sub programmes are unique within a vote and they have 2 digits
- **Sub Sub Programme**: Sub-Sub Programme is allocated one digit
  Segment 2 provides for functional classification of programs similar to COFOG (Classification of Functions of Government). Ministries can choose which program, sub program and activities to align with their objectives.

  284 sub programs existed at the time that the new Chart of Accounts was setup, although the programmes and components are not identical to the COFOG scheme, which typically uses 4 and not 5 digits, the classification mechanism used in the CoA is sound. The 5 digits uniquely locate and identify a sub-program within the Chart of Accounts. The difference between the COFOG and CoA mapping is that the Chart of Accounts mapping contains 2 digits at the sub-programme level while COFOG has reserved only a single digit at the sub-programme level which is called the group level.

  Although the CoA has reserved 2 digits for sub-programmes, in practice only a single digit (1–9) is used. Therefore, elimination of the unused digit of the sub-programmes to enable the length of the code to conform to the length of the COFOG code is practical. The Chart of Accounts includes a partial mapping current chart of accounts codes onto COFOG classifications.

  For functional classification, GFS 2001 uses a 5 digit coding system based on COFOG. The code segment adds an initial additional digit “7” to indicate that the code represents COFOG classification. Otherwise the GFS system adopts the COFOG digital code.

Segment 3

MDGS Objectives 6 digits

Objectives 2 digits, Outputs 2 digits, Activities 2 digits (combined in one category segment)

The 6 digit MDGS code has three 2 digit components and does not have separate categories for the three components. The numerical coding for the output and activities is not unique for different outputs and activities. The code for activities and outputs is unique within each sub-sub theme category but between subthemes there is duplication of sequential numeric coding. Therefore, the information from the segment can only be easily sorted and extracted from the CoA using the sub theme and not at a finer level of detail/granulation without further manipulation.

Segment 4
Economic Classification 7 digits

- Chapter 1 Digit
- Sub-Chapter 2 Digit
- Item 2 Digit
- Sub-item 2 Digit

Segment 4 resembles the GFS Economic classification but has a high level of granularity: 7 digits rather than a typical 4–5 digit presentation of GFS. The higher level of granularity is apparent in reading the sub item detail accounts in the CoA in comparison with the broader classifications included in sub-sub-item accounts under the GFS classification. Because the GFS code adds detail to accounts in single digit increments while the CoA adds detail in 2 digit increments for subchapter, item and sub items the mapping between the two different systems is not intuitive. For example, under GFS Tax on Employment Earnings, (PAYE) is 111101 but in the CoA it is 1010101.

GFS Economic Classification 5 digits		**COA Economic Classification 7 digits**	
Category Title	**Digits**	**Category Title**	**Digits**
Account Class	1	Chapter	1
Item	1	Sub-Chapter	2
Sub Item	1	Item	2
Sub-sub item	1	Sub-item	2
Sub-sub-sub item	1		
Total	5		7

The CoA provides a GFS economic classification but with a modified numeric coding system. For revenue and expense accounts name and item, classification is basically the same under GFS and in the CoA, implying that classification conforms to GFS. (**Although under expenses subventions/subsidies to other levels of government in the CoA Subchapter level 05 is not developed.**)
Chapter (Account Class) 1 digit

The chapter code uses a code similar GFS coding system for classifications of revenue, expenses, assets liabilities and equity and reserves. However, the Malawi CoA is complicated by using separate GFS chapters to distinguish between sales and purchase of financial and non-financial assets and borrowings and repayments of outstanding debt. This classification enables the government to produce a GFS compatible cash flow statement.

The following chart shows the similarities and differences between the CoA chapters and the GFS (accrual) classification and hybrid CoA classification which adapts General Purpose Financial statement requirements for accrual GFS. For the COA classification Chapters 3, 4, 5, 6 and 7 can be grouped within Classification 3 of GFS and classification 3 and 4 of the IPSAS/GPS Hybrid system.

In the GFS system, items 4–7 are concerned with other economic flows which are not captured by a Chart of Accounts system under a cash basis.
These items in the GFS Account classification are for:

- 4: deals with changes in market (holding) value of assets and liabilities. This is an adjustment of asset value to current market prices.
- 5: with changes in the volume of asset and liabilities. This is an adjustment to changes in value because of net acquisitions or dispositions or because of diminution of value because of other economic events (e.g. obsolesce, depletion) except for the consumption of fixed capital which is consider under depreciation or capital cost adjustment for fixed capital (assets).
- 6: the total stock of assets and liabilities (Balance sheet accounts).
- 7: COFOG program classification of expenses.
- 8: Classification of transactions in financial assets and liabilities by sector.

Items 4 and 5 in the GFS account classification appear on the Statement of Other Changes in Net Worth in the GFS accrual Statements.
Item 6 is the GFS accrual Balance Sheet.
Item 7 the GFS statement of outflows by functional classification.
Item 8 provides a calculation of net worth in financial assets and liabilities on balance sheet items.
Appendix 3 describes the relationship between the 8 GFS account classifications.

The third set of columns presents how a typical Chart of Accounts which is accrual based and IPSAS and GFS compatible are organized. It emphasizes the formal separation of assets and liabilities in a double entry accounting system by providing a separate numeric classification which the GFS does not and reserves a further separate classification for equity accounts. This illustration has been obtained from an article describing Chart of Accounts development by Andy Wynne.

GFS Account Classification (accrual basis)		**COA Current Chapter Classification (cash basis)**		**Typical IPSAS/GPS Compatible Account (accrual) Classification**	
1	Revenues	1	Revenues	1	Revenues
2	Expenses (Economic Classification)	2	Expenses	2	Expenses
		3	Sale of Non-Financial assets	3	Assets (Transactions and Stocks)
		4	Acquisition of Non-Financial Assets		

3	Transactions in Assets And Liabilities	5	Disposal of Financial Assets		
		6	Acquisition of Financial Assets		
		7	Borrowing (Liabilities)		
		8	Repayment of Borrowing	4	Liabilities (Transactions and Stocks)
4	Holding Gains in Assets and Liabilities			1	Revenues
5	Changes in Volume of Assets and Liabilities			2	Expenses
6	Stocks in Assets and Liabilities				
7	Outlays by Function of Government (COFOG) 7+4 digits		Functional Code Segment of COA (incomplete) 5 digits		Functional Codes 5 digits
8	Classification of Transactions in Financial Assets and Liabilities by Sector (Equity in Financial Assets and Liabilities)		Not developed in the CoA on a cash inflow and outflow basis	5	Equity and Reserves

The GFS system is the most complex because it records the changes in value which occur due to holding gains and losses and volume changes, which COA and the Hybrid typically do not, as these statements focus on measuring events primarily on the basis of IPSAS cash and accrual standards not GFS standards. IPSAS standards (accrual basis) recommend accounting for holding gains and losses on financial assets and liabilities which are included as part of classification 4 in the GFS classification.

Addition to Chapter Classification Sub-Sub item 2 digits

In order to improve segment 4 of the chart of account, an additional “Sub-sub” item code of two digits should be introduced at the finest level of granularity (individual general ledger accounts) in the Economic Classification section. The use of 2 digits in the additional segment will conform to GFS classification at a higher level of detail/granularity than provided in GFS classification and will ensure that the overall chapter classification conforms to GFS.

Recommendations Introduction for Sub-sub Item 2 Digits

Add an additional 2 digit sub-sub item category to the CoA and ensure that it conforms to GFS and the Chart of Accounts in Appendix 6.

Final Comparison and Representation of the Economic Classifications

GFS Economic Classification 5 digits		**COA Economic Classification 7 digits**		**Revised COA Classification 6 digits**	
Category Title	**Digits**	**Category Title**	**Digits**	**Category Title**	**Digits**
Account Class	1	Chapter	1	Chapter	1
Item	1	Sub-Chapter	2	Sub-Chapter	1
Sub Item	1	Item	2	Item	1
Sub-sub item	1	Sub-item	2	Sub Item	1
Sub-sub-sub item	1			Sub-sub item	2
Total	5		7		6

12.16 End of Chapter Summary

The chapter looked at the appropriate chart of accounts (COA) which is the lynchpin of a government's accounting and reporting system, and serves as a key tool to meet its business requirements. You looked in detail how the recording and reporting financial information requires keeping a chronological log of transactions and events measured in monetary terms and classified and summarized in a useful format based on the business needs of the organization. You learned that this is achieved with the help of a COA as raw data is not very useful until it has been appropriately classified and summarized into meaningful information by using an appropriate COA. With a poorly designed COA, straightforward tasks such as the preparation of standard reports become onerous and often require human and spreadsheet intervention.

With management information System in the budgeting process, CAO becomes an important integral of budgeting processes. In the absence of the existence of CAO it becomes difficult to retrieve and reconcile the required financial data and the financial reports become unreliable; and ready data for processing through management information systems.

Sample Questions

1. Explain the role of Chart of Accounts in a Public Finance Management system.

2. Explain the objectives of Chart of Accounts.

3. Explain the key principles and factors in designing a Chart of Accounts.

Chapter 13

FINANCIAL REPORTING

13.1 Introduction

Financial reporting is one of the pillars of a good financial management system world over. This important activity plays a greater role in enhancing transparency and accountability when it comes to the use of financial resources in both the public and private sectors. Sections 83 to 86 of the Public Finance Management Act (2003) focus on financial reporting. In addition to this, the issue of financial reporting has also been addressed by the various International Public Sector Accounting Standards (IPSAS) which we will cover in this section.

At the end of the financial reporting process, financial statements are produced. You should note that producing financial statements is not enough. We need to analyse the financial statements which have been prepared.

Therefore, this chapter focuses on the preparation of financial statements for a single entity and for a group based on selected IPSASs. The chapter also looks at the interpretation of financial statements, financial statements of Non-Governmental Organisations and reporting for donor-financed development projects.

13.2 Learning Objectives

By the end of this chapter, students should be able to:

n) Prepare financial statements for a single entity
o) Prepare financial statements based on Cash IPSAS
p) Prepare Consolidated financial statements based on IPSASs 6,7,8 and 20
q) Analyse financial statements
r) Discuss the financial statements of Non-Governmental Organisations (NGOs)
s) Describe the financial reporting systems for Donor-Financed Development Projects'

13.3 Preparation of Financial Statements for a Single Entity

Section 83 (1) of the PFMA notes that the Secretary to the Treasury shall as soon as practicable, but not later than 31 October of each year, prepare in accordance with Section 13, and send to the Auditor General the financial statements for that year in the form specified in the Fourth Schedule. On the other hand, the first section of the

Fourth Schedule states that the financial statements must include the following information:

i. Consolidated Operating Statement showing revenue and expenditure showing revenue and expenditure and the surplus or deficit for the reporting period
ii. Statement of Financial Position showing the assets, liabilities and net financial position as at the balance date of the reporting period
iii. Statement of Cash Flows showing the cash receipts and cash payments during the reporting period, and the cash balance as at balance date of the reporting period
iv. Statement of Funds showing, for each Fund, balances at the beginning and end of the reporting period, and the nature of the movement in the reporting period
v. Statement of Cash Balances showing a breakdown of the balances held by type of holding
vi. Statement of Service Performance showing appropriated budgets, approved variations to appropriated budgets, actual performance and variations between actual and budget
vii. Disaggregated Statements of Service Performance for each Ministry and agency showing appropriated budgets and variations to those budgets, actual receipts and payments for appropriated items, including third party outputs and transactions on behalf of the State, and the variations between appropriated budget and actual performance
viii. Statement of Statutory Expenditure showing details of domestic debt servicing, external debt servicing, statutory remuneration and other material items of expenditure
ix. Statement of Investments showing the nature or type of investments and current and non-current investments
x. Statement of Borrowings showing total debt and the breakdown of current and non-current debt, and for each debt showing the opening and closing balances for the reporting period and the nature of the movement during the period, the impact of exchange rate movements, average interest rate, and loan balances available for the drawdown
xi. Statement of Contingent Gains and Liabilities showing where possible an indication of the gain or cost
xii. Statement of Ex-gratia Payments approved under the Provisions of the Act
xiii. Statement of Write-offs approved under section 90 showing in the aggregate losses and deficiencies of public money, irrecoverable amounts debts and overpayment, the value of assets including investments written off, and detailing all individual items with a value greater than K50,000 which have been written off.

The second section requires a statement showing for each account in the Trust Fund, balances at the beginning and of the reporting period, and the nature of the movement in the reporting period. The third section states that a Statement of Accounting Policies setting out the significant accounting policies on which the financial statements are prepared, and other information specified by the Secretary to Treasury in the Treasury Instructions as are required to provide more detailed information or explanations.

The Public Finance Management Act defines Generally Accepted Accounting Practice (GAAP) as standards and practices promulgated by the International Federation of Accountants as applicable to Governments and statutory bodies, or if no standard or practice exists, then accounting principles or practices which have the authoritative support of the accounting profession in Malawi or in countries that maintain accounts and records and prepare financial statements similar to the Government of Malawi and its statutory bodies. Section 13 of the same Act stipulates that financial reports and financial statements should be in accordance with GAAP.

The current trend on accounting in the public sector is that International Public Sector Accounting Standards (IPSASs) are being adopted by the majority of governments in Africa and the other parts of the world. In Malawi, the Institute of Chartered Accountants in Malawi (ICAM) also recommend the application of IPSASs in the public sector. Therefore, the financial reports which will be looked at in this section will be based on IPSASs.

13.4 Cash Basis IPSAS Financial Statements

Bases of Accounting

There are two bases which are used when preparing financial statements. These are:

a) Cash basis.
b) Accruals basis.

Under the cash basis, only those transactions which involve the flow of cash whether inwards or outwards are recorded in the books of accounts. The implication of the cash basis is that financial statements will only reflect cash transactions. All transactions which are not cash in nature will not be included in the financial statements. For example, if an organisation has acquired a building on credit, this transaction will not be recorded in the books because money has not moved from the organisation to the seller. On the other hand, the accrual takes into account of all transactions whether they involve the flow of cash or not. Examples of non-cash transactions are depreciation of non-current assets and profit or losses on disposal of non-current assets. The cash basis is generally used in the public sector while the entities in the private sector apply the accruals basis.

13.5 Purpose of the Cash Basis IPSAS

In the public sector, the Cash Basis IPSAS has adopted the cash basis of accounting. The purpose of this Cash Basis IPSAS is to prescribe the manner in which general purpose financial statements should be presented under the cash basis of accounting.

Information about the cash receipts, cash payments and cash balances of a reporting entity is necessary for accountability purposes and provides input, useful for assessments of the ability of the entity to generate adequate cash in the future and the likely sources and uses of cash. In making and evaluating decisions about the allocation of cash resources and the sustainability of the reporting entity's activities, users require an understanding of the timing and certainty of cash receipts and cash payments.

You should note that compliance with the provisions of this Standard is intended to enhance comprehensive and transparent financial reporting of the cash receipts, cash payments and cash balances of the reporting entity. It is also intended to enhance comparability with the entity's own financial statements of previous periods and with the financial statements of other entities which adopt the cash basis IPSAS.

The Cash Basis IPSAS applies to all public sector entities other than government business enterprises (GBEs). GBEs are profit oriented entities and are required to comply with International Financial Reporting Standards (IFRSs).

Financial Statements

The standard has two parts:

c) Part One – this part deals with the requirements which are mandatory
d) Part Two-deals with the requirements which are not mandatory

Financial Statements Prepared Under Cash Basis IPSAS

The following components must be included in the financial statements prepared under the Cash basis IPSAS:

a) A statement of cash receipts and payments;
b) Accounting policies and explanatory notes; and
c) A statement of comparison of budget and actual amounts, which can either be presented as a separate additional financial statement or as a budget column in the statement of cash receipts and payments

Statement of Cash Receipts and Payments

This is the main statement under the Cash IPSAS. The IPSAS requires that the statement of cash receipts and payments should present the following information for the reporting period:

i. Total cash receipts showing separately a sub-classification of total cash receipts using an appropriate classification basis;
ii. Total cash payments showing separately a sub-classification of total cash payments using an appropriate classification basis; and
iii. Beginning and closing cash balances.

The standard also requires that the following elements be disclosed separately on the face of the statement:

i. Payments made by third parties on behalf of the government
ii. Total external assistance received in cash during the period

Illustration 1: Statement of Cash Receipts and Payments

STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR YEAR ENDED
31 DECEMBER 2013

Note 2013 2012

Property tax		X			X		-	
Other taxes		X			X		-	
			X	-		X		-
External Assistance	10							
Multilateral Agencies		X			X		X	
Bilateral Agencies		X			X		X	
			X	X		X		X
Other Grants and Aid			X	X		X		X
Other Borrowings								
Proceeds from borrowing	3		X	X		X		X
Capital Receipts								
Proceeds from disposal of plant and								
equipment			X	-		X		-
Trading Activities								
Receipts from trading activities			X	-		X		-
Other receipts	4		X	X		X		X
Total receipts			X	X		X		X

PAYMENTS									
Operations									
Wages, salaries and employee benefits		(X)		(X)		(X)		(X)	
Supplies and consumables		(X)		(X)		(X)		(X)	
			(X)		(X)		(X)		(X)
Transfers									
Grants		(X)		-		(X)		-	
Other transfer payments		(X)		-		(X)		-	
			(X)		-		(X)		-
Capital Expenditures									

Purchase/construction of plant and									
Equipment		(X)		(X)		(X)		(X)	
Purchase of financial instruments		(X)		-		(X)		-	(X)
			(X)		(X)		(X)		
Loan and Interest Repayments									
Repayment of borrowings		(X)		-		(X)		-	
Interest payments		(X)		-		(X)		-	
			(X)		-		(X)		-
Other payments	5		(X)		(X)		(X)		(X)
Total payments			(X)		(X)		(X)		(X)
Increase/(Decrease) in Cash			X		-		X		-
Cash at beginning of year	2		X		N/A *		X		N/A
Increase/(Decrease) in Cash			X		N/A		X		N/A
Cash at end of year	2		X		N/A		X		N/A

Accounting Policies and Explanatory Notes

The standard requires that the notes accompanying the financial statements of the government should:

i. Present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and other events; and
ii. Provide additional information which is not presented on the face of the financial statements but is necessary for a fair presentation of the entity's cash receipts, cash payments and cash balances.

The notes to the financial statements should be presented in a systematic manner. Each item on the face of the statement of cash receipts and payments and other financial statements should be cross referenced to any related information in the notes.

The following issues must also be disclosed:

- Significant cash balances that are not available for use by the government;
- Significant cash balances that are subject to external restrictions;
- Undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;

- Receipt of Goods or Services;
- Non compliance with significant terms and conditions of external assistance loan or grant agreements or guarantees; and
- Debt rescheduled or cancelled.

Statement of Comparison of Budget and Actual Amounts

As the government makes publicly available its approved budgets, it is required to present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as **a separate additional financial statement** or as **additional budget columns in the statement of cash receipts and payments** currently presented in accordance with this Standard.

The standard also requires that the actual amounts shall be presented on a comparable basis to the budget, but where the financial statements and the budget are not prepared on a comparable basis, total cash receipts and total cash payments shall be reconciled, identifying separately any basis, timing and entity differences. The reconciliation shall be disclosed on the face of the statement of comparison of budget and actual amounts or in the notes to the financial statements.

Illustration 2: Statement of Comparison of Budget and Actual Amount

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT
For Government X for the Year Ended 31 December 2013
Budget Approved on the Cash Basis
(Classification of Payments by Functions)

(in thousands of Kwacha)	*Actual Amounts	Final Budget	Original Budget	**Difference: Final Budget and Actual
CASH INFLOWS				
Taxation	X	X	X	X
Aid agreements International agencies	X	X	X	X
Other grants and aid	X	X	X	X
Proceeds: borrowing	X	X	X	X
Proceeds: disposal of plant and				
equipment	X	X	X	X
Trading activities	X	X	X	X
Other receipts	X	X	X	X
Total receipts	**X**	**X**	**X**	**X**
CASH OUTFLOWS				
Health	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)
Public order/safety	(X)	(X)	(X)	(X)
Social protection	(X)	(X)	(X)	(X)
Defence	(X)	(X)	(X)	(X)
Housing and community amenities	(X)	(X)	(X)	(X)
Recreational, cultural and religion	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)
Other	(X)	(X)	(X)	(X)
Total payments	**(X)**	**(X)**	**(X)**	**(X)**
NET CASH FLOWS	**X**	**X**	**X**	**X**

Accruals Based IPSAS Financial Statements

In the public sector, accruals based financial statements fall within the scope of IPSAS 1 Presentation of Financial Statements.

The Objective of IPSAS 1 Presentation of Financial Statements

The objective of this Standard is to prescribe the manner in which general purpose financial statements should be presented to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidance for their structure, and minimum requirements for the content of financial statements prepared under the accrual basis of accounting.

General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. General purpose financial statements include those that are presented separately or within another public document such as an annual report. This Standard does not apply to condensed interim financial information. This Standard applies equally to all entities and whether or not they need to prepare consolidated financial statements or separate financial statements, as defined in IPSAS 6, *Consolidated and Separate Financial Statements.*

Definitions

Term	Definition
Accrual basis	A basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.
Assets	Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.
Economic entity	A group of entities comprising a controlling entity and one or more controlled entities.
Expenses	Decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence's of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.
Government Business Enterprise	Means an entity that has all the following characteristics: i. Is an entity with the power to contract in its own name; ii. Has been assigned the financial and operational authority to carry. iii. on a business; iv. Sells goods and services, in the normal course of its business, to; v. other entities at a profit or full cost recovery; vi. Is not reliant on continuing government funding to be a going; vii. concern (other than purchases of outputs at arm's length); and viii. Is controlled by a public sector entity.

Impracticable	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.
Liabilities	Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.
Notes	Contain information in addition to that presented in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement. Notes provide narrative descriptions or disaggregation of items disclosed in those statements and information about items that do not qualify for recognition in those statements.
Revenue	The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Responsibility for Financial Statements

The responsibility for the preparation and presentation of financial statements varies within and across jurisdictions. In addition, a jurisdiction may draw a distinction between who is responsible for preparing the financial statements and who is responsible for approving or presenting the financial statements. Examples of people or positions that may be responsible for the preparation of the financial statements of individual entities (such as government departments or their equivalent) include the individual who heads the entity (the permanent head or chief executive) and the head of the central finance agency (or the senior finance official, such as the controller or accountant-general).

The responsibility for the preparation of the consolidated financial statements of the government as a whole usually rests jointly with the head of the central finance agency (or the senior finance official, such as the controller or accountant-general) and the finance minister (or equivalent). According to the PFMA Section 83 (1), the Secretary to Treasury is responsible for the preparation of financial statements in the Government.

Components of Financial Statements

IPSAS 1 states that a complete set of financial statements comprises:

a) A statement of financial position;
b) A statement of financial performance;
c) A statement of changes in net assets/equity;
d) A cash flow statement;

e) When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and
f) Notes, comprising a summary of significant accounting policies and other explanatory notes.

You should have noted that the components which have been highlighted under IPSAS 1 are more less the same as those under IAS 1 Presentation of Financial Statements apart from “e” above which is not available under IAS 1.Public sector entities whose financial statements comply with IPSASs should disclose that fact in the notes to the financial statements. Financial statements that do not comply with all the requirements of the applicable IPSASs must not be described as complying with IPSASs.

Structure and Content of Financial Statements

Statement of Financial Position

An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity.

Information to be presented on the Face of the Statement of Financial Position

As a minimum, the face of the statement of financial position shall include line items that present the following amounts:

a) Property, plant and equipment;
b) Investment property;
c) Intangible assets;
d) Financial assets (excluding amounts shown under (e), (g), (h) and (i));
e) Investments accounted for using the equity method;
f) Inventories;
g) Recoverables from non-exchange transactions (taxes and transfers);
h) Receivables from exchange transactions;
i) Cash and cash equivalents;
j) Taxes and transfers payable;
k) Payables under exchange transactions;
l) Provisions;
m) Financial liabilities (excluding amounts shown under (j), (k) and (l));
n) Minority interest, presented within net assets/equity; and
o) Net assets/equity attributable to owners of the controlling entity

If there is need additional line items, headings and sub-totals shall be presented on the face of the statement of financial position when such presentation is relevant to an understanding of the entity’s financial position.

Statement of Financial Performance

Surplus or Deficit for the Period

All items of revenue and expense recognized in a period shall be included in surplus or deficit unless an IPSAS requires otherwise. Normally, all items of revenue and expense recognized in a period are included in surplus or deficit. This includes the effects of changes in accounting estimates. However, circumstances may exist when particular items may be excluded from surplus or deficit for the current period. IPSAS 3 deals with two such circumstances: the correction of errors and the effect of changes in accounting policies.

There are other items that may meet definitions of revenue or expense as set out in this IPSAS but are usually excluded from surplus or deficit. Examples include revaluation surpluses (IPSAS 17), particular gains and losses arising on translating the financial statements of a foreign operation (IPSAS 4) and gains or losses on re-measuring available-for-sale financial assets. These items are similar to items recognised in Other Comprehensive Income.

Information to be presented on the Face of the Statement of Financial Performance

a) As a minimum, the face of the statement of financial performance shall include line items that present the following amounts for the period:
b) Revenue;
c) Finance costs;
d) Share of the surplus or deficit of associates and joint ventures accounted for using the equity method;
e) Pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations; and
f) Surplus or deficit

In terms of consolidated financial statements, the following items shall be disclosed on the face of the statement of financial performance as allocations of surplus or deficit for the period:

a) Surplus or deficit attributable to minority interest; and
b) Surplus or deficit attributable to owners of the controlling entity

Information to be Presented Either on the Face of the Statement of Financial Performance or in the Notes

When items of revenue and expense are material, their nature and amount shall be disclosed separately.

The standard gives examples of circumstances that would give rise to the separate disclosure of items of revenue and expense include:

i. Write-downs of inventories to net realizable value or of property, plant and equipment to recoverable amount or recoverable service amount as appropriate, as well as reversals of such write-downs;

ii. Restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
iii. Disposals of items of property, plant and equipment;
iv. Privatizations or other disposals of investments;
v. Discontinuing operations;
vi. Litigation settlements; and
vii. Other reversals of provisions.

An entity shall present, either on the face of the statement of financial performance or in the notes, a sub classification of total revenue, classified in a manner appropriate to the entity's operations. An entity shall present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.

Revenue		X
Employee benefits costs	X	
Depreciation and amortization expense	X	
Other expenses	X	
Total expenses		(X)
Surplus		X

Statement of Changes in Net Assets/Equity

IPSAS 1 also contains provisions regarding the presentation of a statement of changes in net assets/equity. The aim is to provide a break-down of movements in equity, which are not recognised in surplus or deficit nor, accordingly, in the statement of financial performance.

An entity shall present a statement of changes in net assets/equity showing on the face of the statement:

a) Surplus or deficit for the period;
b) Each item of revenue and expense for the period that, as required by other Standards, is recognized directly in net assets/equity, and the total of these items;
c) Total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to owners of the controlling entity and to minority interest; and
d) For each component of net assets/equity separately disclosed, the effects of changes in accounting policies and corrections of errors recognized in accordance with IPSAS 3.

As a mirror image of IAS 1, public sector entities are required to present the amounts of transactions with owners acting in their capacity as owners either in the statement of changes in net assets/equity or in the notes, and to show distributions or allocations to owners separately.

Cash Flow Statement

Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilize those cash flows. IPSAS 2 sets out requirements for the presentation of the cash flow statement and related disclosures.

Notes to the Financial Statements

IPSAS 1 contains extensive minimum disclosure requirements for the notes to the financial statements. The following disclosures are prescribed by the standard:

a) Information about the basis of preparation of the financial statements and the specific accounting policies used;
b) Information required by IPSASs that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement; and
c) Information that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement, but that is relevant to an understanding of any of them.

Consolidating the Financial Statements

The standard requires that only those entities that are directly controlled by the government are to be consolidated. These are the entities that the government directly governs their financial and operating policies.

Treatment of Foreign Currency Cash Receipts, Payments and Balances

All Cash receipts and payments arising from transactions in a foreign currency should be recorded in an entity's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the receipts and payments. Cash balances held in a foreign currency should be reported using the closing rate. The cash receipts and cash payments of a foreign controlled entity should be translated at the exchange rates between the reporting currency and the foreign currency at the dates of the receipts and payments.

Encouraged Additional Disclosures

The three statements which have been discussed above are mandatory and these are contained in the first part of the standard. The second part of the standard highlights additional disclosures which are not mandatory. The following is a list of encouraged disclosures under the Cash Basis IPSAS:

i. Going Concern;
ii. Extraordinary Items;
iii. Disclosure of Major Classes of Cash Flows;
iv. Disclosure of Assets, Liabilities and Comparison with Budgets;
v. Acquisitions and Disposals of Controlled Entities and Other Operating Units;
vi. Joint Ventures;
vii. Assistance Received from Non-Governmental Organizations (NGOs); and
viii. Purposes for which external assistance was received during the reporting period the outstanding balance of any external assistance loans for which principal and/or interest payments have been guaranteed by third parties, any terms and conditions related to those loans, and any additional terms and conditions arising from the guarantee.

Consolidated and Separate Financial Statements

You will recall that in the private sector, consolidated financial statements are governed by IFRS 10 *Consolidated Financial Statements*. Other standards also apply. Examples include IFRS 3 *Business Combinations* and International Accounting Standard (IAS) 27 *Separate Financial Statements*. In the public sector, consolidated financial statements are also prepared. The applicable standard is IPSAS 6 *Consolidated and Separate Financial Statements*.

Objectives of IPSAS 6

The objectives of IPSAS 6 are as follows:

i. To prescribe requirements for preparing and presenting consolidated financial statements for an economic entity under the accrual basis of accounting.
ii. To prescribe how to account for investments in controlled entities, jointly controlled entities and associates in separate financial statements.

Definitions

The following table contains the key definitions under IPSAS 6.

Term	Definition
Controlled entity	An entity, including an unincorporated entity such as a partnership, which is under the control of another entity (known as the controlling entity).
Control	The power to govern the operating and financial policies.
Consolidated financial statements	Financial statements of an economic entity presented as those of a single entity.
Controlling entity	An entity that has one or more controlled entities
Cost method	A method of accounting for an investment, whereby the investment is recognized at cost. The investor recognizes revenue from the investment only to the extent that the investor is entitled receive distributions from accumulated surpluses of the investee arising after the date of acquisition.
Minority interest	That portion of the surplus or deficit and net assets/equity of a controlled entity attributable to net assets/equity interests that are not owned, directly or indirectly, through controlled entities, by the controlling entity.
Separate financial statements	Those financial statements presented by a controlling entity, an investor in an associate, or a venture in a jointly controlled entity, in which the investments are accounted for on the basis of the direct net assets/equity interest rather than on the basis of the reported results and net assets of the investees.

Consolidation Financial Statements

Under IPSAS 6, a controlling entity is required to present consolidated financial statements in which it consolidates its controlled entities. Consolidated financial statements must include all controlled entities, except when there is evidence that:

i. Control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its subsequent disposal within twelve months from acquisition; and
ii. Management is actively seeking a buyer.

Controlled entities that operate under severe long-term funds transfer restrictions should not be exempted from being consolidated. Again, a controlled entity is not excluded from consolidation because its activities are dissimilar to those of the other activities within the economic entity.

Exemption from Preparing Consolidated Financial Statements

A controlling entity needs not present consolidated financial statements if and only if:

a) The controlling entity is:

   i. It is a wholly-owned controlled entity, and users of financial statements are unlikely to exist or their information needs are met by its controlling entity's consolidated financial statements; or
   ii. A partially-owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the controlling entity not presenting consolidated financial statements;

b) The controlling entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets)

c) The controlling entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market, and

d) Its ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with IPSASs.

Establishing Control of another Entity for Financial Reporting Purposes

Whether an entity controls another entity for financial reporting purposes is a matter of judgment, based on the definition of control and the particular circumstances of each case. The standard states that consideration needs to be given to the nature of the relationship between the two entities. Two important aspects should be taken into account:

i. Power element; and
ii. Benefit element.

The power element is points towards the power to govern the financial and operating policies of another entity. On the other hand, the benefit element represents the ability of the controlling entity to benefit from the activities of the other entity. For the purposes of establishing control, the controlling entity needs to benefit from the activities of the other entity. For example the controlling entity may benefit in terms of a distribution of the controlled entity's surplus or being exposed to the risk of a potential loss.

You should note that for the purposes of financial reporting, control stems from an entity's power to govern the financial and operating policies of another entity, and does not necessarily require an entity to hold a majority shareholding or other equity interest in the other entity. The power to control must be presently exercisable. This may be through legislation or some formal agreement. Again, the existence of control does not require an entity to have responsibility for the management of (or involvement in) the day –to-day operations of the other entity.

Government and their agencies have the power to regulate the behavior of many entities by use of their sovereign or legislative powers. Regulatory and purchase powers do not constitute control for the purposes of financial reporting. To ensure that the financial statements of public sector entities include only those resources that they control and can benefit from, the meaning of control for the purposes of the standard does not include the following:

i. The power of the legislature to establish the regulatory framework within which entities operate , and to impose conditions or sanctions on their operations;
ii. Entities which are economically dependent on a public sector entity. An example would be where a government department may be able to influence the financial and operating policies of an entity that is dependent upon it for funding (such as a charity) , or a profit-orientated entity that is economically dependent on business from it. Accordingly, the government department has some power as a purchaser but not to govern the entity's financial and operating policies; and

Among public sector entities, control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exist, unless there is clear evidence of control being held by another entity.

a) Power Conditions

   i. The entity has, directly or indirectly through controlled entities, ownership of a majority voting interest in the other entity;
   ii. The entity has the power, either granted by or exercised within existing legislation, to appoint or remove a majority of the members of the board of directors or equivalent governing body, and control of the other entity is by that board or by that body;
   iii. The entity has the power to cast, or regulate the casting of, a majority of the votes that are to be cast at a general meeting of the other entity; and
   iv. The entity has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body, and control of the other entity is by that board or by that body.

b) Benefits Conditions

   i. The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations.
   ii. The entity has the power to extract distributions of assets from the other entity, and /or may be liable for certain obligations of the other entity.

When one or more of the circumstances highlighted above do not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control:

a) Power indicators

   i. The entity has the ability to veto operating and capital budgets of the other entity
   ii. The entity has the ability to veto, overrule, or modify governing body decisions of the other entity

iii. The entity has the ability to approve the hiring, reassignment, and removal of key personnel of the other entity
iv. The mandate of the other entity is established and limited by legislation
v. The entity holds a golden share (or equivalent) in the other entity that confers rights to govern the financial and operating policies of that other entity

b) Benefit indicators

i. The entity holds direct or indirect title to the net assets/equity of the other entity, with an ongoing right to access these
ii. The entity has a right to a significant level of the net assets/equity of the other entity in the event of a liquidation, or in a distribution other than a liquidation
iii. The entity is able to direct the other entity to cooperate with it in achieving its objectives
iv. The entity is exposed to the residual liabilities of the other entity.

A controlling entity loses control when it loses the power to govern the financial and operating policies of a controlled entity so as to benefit from its activities. The loss of control can occur with or without a change in absolute or relative ownership levels.

Consolidation Procedures

You should recall that the spirit behind the consolidation process is to combine the like items of assets, liabilities, equity, income and expenses. So in the course of consolidating, an entity combines the financial statements of the controlling entity and its controlled entities line by line , by adding together like items of assets, liabilities, net assets/equity, revenue and expenses.

Remember that when consolidating, the entity wants to present financial information about the economic entity as that of a single entity. In this case, the entity should ensure that:

i. The carrying amount of the controlling entity's investment in each controlled entity and the controlling entity's portion of the net assets/equity of each controlled entity are eliminated;
ii. Minority interests in the surplus or deficit of consolidated controlled entities are identified;
iii. Minority interests in the net assets/equity of consolidated controlled entities are identified separately from the controlling entity's net assets/equity in them. Minority interests in the net assets/equity consist of:

- The amount of those minority interests at the date of the original combination. IFRS 3 *Business Combination* applies on how this amount should be calculated.
- The minority's share of changes in net assets/equity since the date of combination.

The balances, transactions, revenue and expenses between entities within the economic entity are eliminated in full. All entities in the economic entity must use uniform accounting policies for like transactions. This makes sense because the controlling entity has a say over the financial and operating policy decisions of controlled. Ideally, the reporting dates of all the entities within the economic entities should be the same. However, should there be differences; the reporting dates of controlled entities cannot be more than three months different from reporting date of the controlling entity.

Minority Interest

As noted above, minority interest is reported in net assets/equity in the consolidated statement of financial position, separately from the controlling entity's net assets/equity, and is not deducted in measuring the economic entity's revenue or expense. However, surplus or deficit of the economic entity is allocated between minority and majority interest on the face of the statement of financial performance.

Separate Financial Statements

These are the financial statements of an entity which has a controlled entity, associate or venture's interest in a jointly controlled entity. Financial statements of an entity which does not have a controlled entity, associate or venture's interest in a jointly controlled entity are not separate financial statements. In the controlling entity's separate financial statements: account for all of its investments in controlling entities, associates and joint ventures:

i. Using the equity method as per IPSAS 7 *Interests in Associates;*
ii. At cost; and
iii. As a financial instrument in accordance with IPSAS 29 *Financial Instruments : Recognition and Measurement.*

IPSAS 7 Interests in Associates

Apart from investing in subsidiaries, a controlling entity can also invest in associates. In terms of investments, associates are below the level of subsidiaries. Interests in associates fall within the scope of IPSAS 7.

Objective of IPSAS 7

The objective of this standard is to prescribe the investor's accounting for investments in associates where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other formal equity structure.

Scope

The standard applies to all investments in which an investor has significant influence unless the investor is:

i. A venture capital organization, or
ii. A mutual fund or unit trust or a similar entity, such as an investment-linked insurance fund that is measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change, in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.
iii. When there is evidence that the investment is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer, the investment shall be classified as held for trading and accounted for in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.

Definitions

Term	Definition
An associate	An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that, is neither a controlled entity nor an interest in a joint venture.
The equity method	(for the purpose of this Standard) is a method of accounting whereby the investment is initially recognized at cost, and adjusted thereafter for the post-acquisition change in the investor's share of net assets/equity of the investee. The surplus or deficit of the investor includes the investor's share of the surplus or deficit of the investee.
Significant influence	The power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Significant Influence

Whether an investor has significant influence over the investee is a matter of judgment based on the nature of the relationship between the investor and the investee, and on the definition of significant influence in this Standard. This Standard applies only to those associates in whom an entity holds an ownership interest in the form of a shareholding or other formal equity structure.

The existence of significant influence by an investor is usually evidenced in one or more of the following ways:

i. Representation on the board of directors or equivalent governing body of the investee;
ii. Participation in policy-making processes, including participation in decisions about dividends or similar distributions;
iii. Material transactions between the investor and the investee;
iv. Interchange of managerial personnel; or
v. Provision of essential technical information.

The Equity Method

Under the equity method, the investment in an associate is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of surplus or deficit of the investee after the date of acquisition. The investor's share of the surplus or deficit of the investee is recognized in the investor's surplus or deficit. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been recognized in the investee's surplus or deficit. Such changes include those arising from the revaluation of property, plant, and equipment, and from foreign exchange translation differences. The investor's share of those changes is recognized directly in net assets/equity of the investor.

Application of the Equity Method

An investment in an associate shall be accounted for using the equity method, except when:

i. There is evidence that the investment is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer;
ii. The exception under IPSAS 6, allowing a controlling entity that also has an investment in an associate not to present consolidated financial statements, applies.

    When an investment in an associate previously accounted for in accordance with IPSAS 29 is not disposed of within twelve months, it shall be accounted for using the equity method as from the date of acquisition. Financial statements for the periods since acquisition shall be restated.

An investor should discontinue the use of the equity method from the date that it ceases to have significant influence over an associate, and should account for the investment in accordance with IPSAS 29 from that date, provided the associate does not become a controlled entity or a joint venture as defined in IPSAS 8 *Interests in Joint Ventures*. The carrying amount of the investment at the date that it ceases to be an associate will be regarded as its cost on initial measurement as a financial asset in accordance with IPSAS 29.

The carrying amount of the investment at the date that it ceases to be an associate will be regarded as its cost on initial measurement as a financial asset in accordance with IPSAS 29.

Surpluses and deficits resulting from upstream and downstream transactions between an investor (including its consolidated controlled entities) and an associate are recognised in the investor's financial statements only to the extent of unrelated investors' interests in the associate. Upstream transactions are, for example, sales of assets from an associate to the investor. Downstream transactions are, for example, sales of assets from the investor to an associate. The investor's share in the associate's surpluses and deficits resulting from these transactions is eliminated.

Impairment Losses

After application of the equity method, including recognizing the associate's losses in accordance with paragraph 35, the investor applies the requirements of IPSAS 29 to determine whether it is necessary to recognize any additional impairment loss with respect to the investor's net investment in the associate.

The investor also applies the requirements IPSAS 29 to determine whether any additional impairment loss is recognized with respect to the investor's interest in the associate that does not constitute part of the net investment and the amount of the impairment loss.

If application of the requirements in IPSAS 29 indicates that the investment may be impaired, an entity applies IPSAS 21, *Impairment of Non-Cash- Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*. IPSAS 26 directs an entity to determine the value in use of the cash generating investment. Based on IPSAS 26, an entity estimates:

i. Its share of the present value of the estimated future cash flows expected to the generated by the investee, including the cash flows from the operations of the investee and the proceeds on the ultimate disposal of the investment; or
ii. The present value of the estimated future cash flows expected to arise from dividends or similar distributions to be received from the investment, and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result. Any resulting impairment loss for the investment is allocated in accordance with IPSAS 26. The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

IPSAS 8 Interests in Joint Ventures

Scope

An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, revenue and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:

i. Venture capital organizations; or
ii. Mutual funds, unit trusts and similar entities including investment linked insurance funds that are measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the c IPSAS 29, *Financial Instruments: Recognition and Measurement.*

A venturer with an interest in a jointly controlled entity may be exempted from applying the provisions of IPSAS 8. The conditions to be fulfilled are the same as those under IPSAS 6 and IPSAS 7.

Definitions

The terms equity method and significant influence have already been defined under IPSAS 7. However, they also apply to IPSAS 8. Other definitions specific to IPSAS 8 are shown below:

Term	Definition
Joint venture	A binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control.
Proportionate consolidation	A method of accounting whereby a venture's share of each of the assets, liabilities, revenue and expenses of a jointly controlled entity is combined line by line with similar items in the venture's financial statements or reported as separate line items in the venture's financial statements.
Venturer	A party to a joint venture and has joint control over that joint venture

Binding Arrangement

The existence of a binding arrangement distinguishes interests that involve joint control from investments in associates in which the investor has significant influence. For the purposes of IPSAS 8, an arrangement includes all binding arrangements between venturers. That is, in substance, the arrangement confers similar rights and obligations on the parties to it as if it were in the form of a contract. For instance, two government departments may enter into a formal arrangement to undertake a joint venture, but the arrangement may not constitute a legal contract because, in that jurisdiction, individual departments may not be separate legal entities with the power to contract. Activities that have no binding arrangement to establish joint control are not joint ventures for the purposes of this Standard.

The standard notes that a binding arrangement may be evidenced in a number of ways, for example by a contract between the venturers or minutes of discussions between the venturers. In some cases, the binding arrangement is incorporated in the enabling legislation, articles, or other by-laws of the joint venture. Whatever its form, the arrangement is usually in writing, and deals with such matters as:

The activity, duration and reporting obligations of the joint venture:

i. The appointment of the board of directors or equivalent governing body of the joint venture and the voting rights of the venturers;
ii. Capital contributions by the venturers; and
iii. The sharing by the venturers of the output, revenue, expenses, surpluses or deficits, or cash flows of the joint venture.

The binding arrangement establishes joint control over the joint venture. Such a requirement ensures that no single venturer is in a position to control the activity unilaterally. The arrangement identifies the decisions in areas essential to the goals of the joint venture that require the consent of the entire all the venturers and those decisions that may require the consent of a specified majority of the venturers.

Forms of Joint Venture

Many public sector entities establish joint ventures to undertake a variety of activities. The nature of these activities ranges from commercial undertakings to provision of community services at no charge. The terms of a joint venture are set out in a contract or other binding arrangement and usually specify the initial contribution from each joint venturer and the share of revenues or other benefits (if any), and expenses of each of the joint venturers.

Joint ventures take many different forms and structures. Under IPSAS 8, there are three broad types: – jointly controlled operations, jointly controlled assets, and jointly controlled entities. The following characteristics are common to all joint ventures:

i. Two or more venturers are bound by a binding arrangement; and
ii. The binding arrangement establishes joint control.

Different accounting treatments apply for each type of joint venture.

Jointly Controlled Operations

Venturer recognizes the assets it controls, and expenses and liabilities it incurs, and its share of revenue earned, in both its separate and consolidated financial statements.

Jointly Controlled Assets

The venturer recognizes in its financial statements its share of the jointly controlled assets, any liabilities that it has incurred, and its share of any liabilities incurred jointly with the other venturers, revenue earned from the sale or use of its share of the output of the joint venture, its share of expenses incurred by the joint venture, and expenses incurred directly in respect of its interest in the joint venture. These rules apply to both separate and consolidated financial statements.

Jointly Controlled Entities

The standard allows the use of two methods; proportionate consolidation and equity method.

Proportionate Consolidation

Under this method, the venturer's statement of financial position includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. Its statement of financial performance includes its share of the revenue and expenses of the jointly controlled entity;

Equity Method

This is the method that has been described in IPSAS 7 when accounting for interests in associates. In this case, the accounting associates and jointly controlled entities are accounted

When there is evidence that the interest in a joint venture is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer, the interest shall be classified as held for trading and accounted for in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.

Even if consolidated accounts are not prepared (for example, because the venturer has no controlled entities), proportionate consolidation/ equity accounting is required. However, in the venturer's "separate financial statements" as defined in IPSAS 6, interests in joint ventures should be accounted for either at cost or as a financial instrument.

Analysis of Financial Statements

In the earlier sections, we have looked at the preparation of financial statements for a single entity and consolidated financial statements. Preparation of financial statements is just a starting point. The numbers that are contained in the financial statements may not be useful in absolute terms. We need to go beyond the numbers and analyse the financial statements.

Financial analysis is defined as the selection, evaluation, and interpretation of financial data, along with other pertinent information, to assist in investment and financial decision-making.

Financial analysis makes use of data. The possible sources of data include:

i. Financial statements;
ii. Disclosures in the financial statements;
iii. Economic data i.e. GDP, consumer price index;
iv. Marketing data; and
v. Events that may help explain an organisation's condition and may have a bearing on its future prospects.

Importance of Financial Analysis

Users of financial statements need financial statements to make informed decisions. SOs financial analysis assists internal users, such as management, effectiveness in providing products and services.

External users, such as stockbrokers and lenders, also analyze financial statements so that they make better and more informed investing and lending decisions.

Others, such as suppliers also make use of financial analysis to establish credit terms, or analyst services, in making buy-sell ratings on stocks and in setting credit ratings.

It should be clear to you that the above points apply in the public sector as well and this exercise is important. However, there is need for us to have benchmarks or yardsticks.

Basis of Comparison	Explanation
Intra-firm	Comparing data from the current year to the prior years for the firm analyzed can indicate useful trends in performance.
Industry	Comparing financial analysis data for a firm to its industry average lets us know how a firm compares to its competitors
Competitor	Comparing a firm's financial data to one of its competitors is especially useful in making investing decisions.

How is it done?

There are several ways of analyzing financial statements. These include:

- Horizontal analysis;
- Vertical analysis;
- Ratio analysis; and
- Horizontal Analysis.

When conducting horizontal analysis, the emphasis is on the movements across the periods. The movements can be expressed as absolute amounts or as percentages. Table … I shows the application of the horizontal analysis on the statements of financial position of MG Investments for the period 2013 and 2012. You can notice that though the latest figures are for 2013, figures for 2012 have also been provided to provide a basis for the movements.

Current assets:				
Cash	12,000.00	23,500.00	(11,500.00)	(48.94)
Accounts receivable, net	60,000.00	40,000.00	20,000.00	50.00
Inventory	80,000.00	100,000.00	(20,000.00)	(20.00)
Prepaid expenses	3,000.00	1,200.00	1,800.00	150.00
Total current assets	155,000.00	164,700.00	(9,700.00)	(5.89)
Property and equipment:				
Land	40,000.00	40,000.00	0.00	0.00
Buildings and equipment, net	120,000.00	85,000.00	35,000.00	41.18
Total property and equipment	160,000.00	125,000.00	35,000.00	28.00
Total assets	315,000.00	289,700.00	25,300.00	8.73

revenue figure being expressed as a percentage of surpluses for the period. Table … shows an example of vertical analysis.

Table ….
If you compare the percentages for 2013 and 2012, this will no longer be vertical analysis. It will be part of horizontal analysis as this a comparison across the periods.

Ratio Analysis

MG INVESTMENTS
Statement of Financial Position (Assets)
At December 31, 2013 and 2012

			% of Total Assets	
	2013	2012	2013	2012
Cash	82,000.00	30,000.00	0.17	0.08
Accts. Rec.	120,000.00	100,000.00	0.25	0.26
Inventory	87,000.00	82,000.00	0.18	0.21
Land	101,000.00	90,000.00	0.21	0.23
Equipment	110,000.00	100,000.00	0.23	0.26
Accum. Depr.	(17,000.00)	(15,000.00)	(0.04)	(0.04)
Total	483,000.00	387,000.00	1.00	1.00

A ratio is a mathematical relation between one quantity and another. On the other hand, a financial ratio is a comparison between one bit of financial information and another. The percentages which we have calculated in tables … and … are examples of ratios.

There are caveats which should be taken into account when calculating ratios. These include:

i. A single ratio rarely tells enough to make a sound judgment.
ii. Financial statements used in ratio analysis must be from similar points in time.
iii. Audited financial statements are more reliable than unaudited statements.
iv. The financial data used to compute ratios must be developed in the same manner.
v. Inflation can distort comparisons. So if we want to adjust figures for inflation, we should adjust all the figures in the periods under review.

Ratio Categories

For the purposes of analysing financial statements, ratios have been grouped into several categories. These are shown in the table below.

	Ratio Category	**Explanation**
1	Liquidity	Provides information on the firm's ability to meet its short – term obligations
2	Profitability	Provides information on the amount of income from each Kwacha (or any other currency) of sales
3	Efficiency	Relates information on a firm's ability to manage its resources (assets) efficiently
4	Gearing	Provides information on the degree of a firm's fixed financing obligations and its ability to satisfy these financing obligations
5	Investor	Describes the firm's financial condition in terms of amounts per share

It can be shown that if we want to do a proper ratio analysis for a firm, we should calculate ratios from all the categories which have been shown in the table. This will enable us to have a holistic picture of the performance of a firm. You should be familiar with the calculations and how to interpret the ratios from your earlier modules. In the public sector, we also calculate similar ratios but the might be modified depending on the nature of the data provided.

Financial Analysis in the Public Sector

Financial analysis is very important in the public sector. The International Public Sector Accounting Standards Board (IPSASB) has developed IPSAS ED 47: Financial Statement Discussion and Analysis. This is a proposed IPSAS of financial statement discussion and analysis. This is a welcome initiative in the public sector.
The objective of the proposed standard is to prescribe the manner in which financial statement discussion and analysis should be prepared and presented. To achieve this

objective, the standard sets out overall considerations for the guidance for its structure, minimum requirements for the content and presentation to allow entities to prepare financial statement discussion and analysis for their specific circumstances to assist users to understand the financial statements.

According to the proposed standard, an entity that prepares and presents general purpose financial statements in accordance with IPSAS 1, *Presentation of Financial Statements*, shall prepare and present financial statement discussion and analysis. Financial statement discussion and analysis shall be prepared for the same reporting entity that prepares and presents financial statements under the accrual basis of accounting.

The standard defines financial statement discussion and analysis is an explanation of the significant items, transactions, and events presented in an entity's financial statements and the trends and factors that influenced them.

Structure and Content of Financial Statement Discussion and Analysis

Financial statement discussion and analysis shall be consistent with the financial statements, and based on currently-known facts and supportable assumptions.

Financial statement discussion and analysis should be identified clearly, and distinguished from the financial statements. Separate identification of financial statement discussion and analysis enables users to distinguish:

i. Financial statements prepared and presented under the accrual basis of accounting in accordance with IPSASs; and
ii. Other information presented in an annual report or other document that may be useful to users but is not the subject of requirements in IPSASs.

An entity whose financial statement discussion and analysis complies with this IPSAS shall make an explicit and unreserved statement of such compliance. Financial statement discussion and analysis shall not be described as complying with this IPSAS unless it complies with all the requirements of this IPSAS.

Minimum Required Content

The standard states that to the extent it does not replicate information in the financial statements, financial statement discussion and analysis shall include, at a minimum:

i. An overview of the entity;
ii. Information about the entity's objectives and strategies;
iii. An analysis of the entity's financial statements, including variances and trends; and
iv. Information about the entity's risks and uncertainties, including its risk management strategy.

Overview of the Entity

An overview of the entity helps users to understand the entity and how the environment in which it operates affect an entity's financial statements. This information is the starting point in assisting users' understanding of an entity's financial statements. Information provided about an entity's operations in financial statement discussion and analysis may include current information, and changes from the prior year, about:

i. The entity's mission and vision;
ii. The entity's governance (e.g., legislative or regulatory structure, management structure);
iii. The entity's relationships with other entities (e.g., funding arrangements);
iv. External trends, events and developments in the legal, regulatory, social, political, and macro-economic environment specific to the entity, which have or may have a material impact on the entity's financial position and financial performance (e.g., the impact of a regional or international financial crisis on employment, the tax base, or interest rates in the jurisdiction); and
v. The entity's main operations, including service delivery methods (e.g., outsourcing, service concession arrangements) and significant changes in them

Information about the Entity's Objectives and Strategies

Financial statement discussion and analysis should discuss the entity's objectives and strategies in a way that enables users of the financial statements to understand the entity's priorities and to identify the resources that must be managed to achieve its objectives. Financial statement discussion and analysis should also explain how the achievement of the entity's financial objectives (e.g., debt reduction strategy) will be measured. Financial statement discussion and analysis should discuss significant changes in an entity's objectives and strategies from the previous period or periods.

Analysis of the Entity's Financial Statements

Financial statement discussion and analysis should describe the significant events and activities that have affected the financial statements, without simply reiterating the information presented in those financial statements. A brief discussion of the purpose of, and information provided by, each component of the financial statements set out in IPSAS1, and their interrelationships should also be provided. In addition, there should be a discussion of significant commitments, contingencies, and events occurring after the reporting date.

If financial performance measures that are not required or defined by IPSASs are included within financial statement discussion and analysis, those measures should be defined and explained, including an explanation of the relevance of the measure to users. When financial performance measures are derived or drawn from the financial statements, those measures should be reconciled to measures presented in the financial statements that have been prepared in accordance with IPSASs. In addition, narrative explanations of such illustrations should be provided if necessary to accurately and completely present the information.

Comparative information should be included in financial statement discussion and analysis when it is relevant to an understanding of the current period's financial statements.

Financial statements can have a predictive or prospective role. This Standard does not require the entity to disclose forward-looking information, such as forecasts or projections. However, financial statement discussion and analysis should explain significant changes and trends in an entity's financial position and financial performance. An analysis of trends includes those financial statement items that are important and significant to gaining a better understanding of an entity's financial position and performance and changes in financial position and performance over a period of time.

Identification of the main events, trends, and factors influencing the current reporting period may provide information about the entity's intended actions in relation to such events, trends, and factors because the party responsible for the preparation of the entity's financial statement discussion and analysis possesses informed expectations regarding the entity's future operations based on its detailed knowledge of the entity's current operations.

To the extent such information is not included in the financial statements; financial statement discussion and analysis should include information about significant positive and negative variances between:

i. Actual results and the budget; and
ii. The prior year and current year financial statements, by explaining significant changes and highlighting trends

Risks and Uncertainties

Information about the entity's risks and uncertainties helps users to evaluate the impact of risks in the current period as well as expected outcomes. Information provided may include its main exposures to risk and changes in those risks, its opportunities, along with its policies and strategies for mitigating the risks and capitalizing on opportunities. It may also include the entity's evaluation of the effectiveness of its risk management strategies. It is noted, however, that these need to be fact-based and take into account currently-known conditions. In addition, underlying assumptions need to be disclosed.

Information about the entity's risks and uncertainties may include a discussion of such matters as a summary of the entity's investment policy and other means of managing its risks, insurance coverage, and other controls intended to safeguard the entity's assets. It may also include the relevant legislation, regulation or body that sets the risk management policies for the entity (e.g., when risks are managed at a government-wide level).
A discussion of how the entity's manages its risks helps users obtain a complete picture of the entity's exposure to risks that directly affect financial statement items and disclosures, which allows them to evaluate the entity's financial position and

financial performance. Such disclosure may include the entity's decision to "self-insure", or to mitigate risk by transferring or sharing it, or through insurance

Risks and uncertainties may have a pervasive effect on the financial statements, therefore information pertaining to risks and uncertainties may be reported separately, or in relevant sections throughout the financial statement discussion and analysis.

Financial Statements of Non- Governmental Organizations

Non- Governmental Organizations (NGOs) are also required to prepare and present financial statements. This is aimed at enhancing transparency and accountability in the use of the funds that are made available to these organizations.
The financial statements which are produced depend on the basis of accounting used. Organizations may choose to apply the cash basis or the accruals basis.

If the cash basis has been used, the statement to be produced will be the Income and Expenditure Statement. In this case, only those transactions which are cash in nature will be taken into account. All non-cash transactions will be excluded. The implication of this approach is that capital items are expensed in the statements. These organizations will not produce the Statement of Financial Position. To a certain extent, this may be similar to the Cash Basis IPSAS. The only difference is that this statement is not covered by the Cash Basis IPSAS.

On the other hand, we have NGOs which apply the accruals basis. One variation of this is the Accruals Basis IPSAS. You have already looked at these statements in section …….. The other approach is to use the full set of IFRSs in which case the NGOs will apply the accounting standards applicable in the private sector. The third alternative is the use of the modified IFRSs, the IFRS for Small and Medium-sized Entities. Unlike the full set of IFRSs, the set for SME has been abridged and contains less alternatives and disclosures. Regardless of the approach used, organizations are required to show the assets, liabilities and net assets/equity through the presentation of the statement of financial position.

You should also note that different donor- agencies have different reporting requirements. At the end of the day, the financiers would want to make sure that the funds have been put to god use. In this regard, NGOs are required to retire or liquidate the funds that they had received by producing liquidation reports. In Malawi, United Nations funded Implementing Partners are mandated to prepare what are known as FACE forms. This stands for Funding Authorization and Certification of Expenditure.

End Chapter Summary

This chapter has focused on financial reporting in the public sector. You have learnt that financial reporting is an important aspect in Financial Management. The Public Finance Management Act (PFMA) highlights the financial statements which should be prepared in Section 83. In the public sector financial statements are prepared using the International Public Sector Accounting Standards (IPSAS). Depending on the basis of accounting adopted, if public sector entities want to adopt the cash basis of accounting, then they will apply IPSAS 1. If the choice is on the accruals basis of accounting, IPSAS 1 Presentation of Financial Statements will be applied.

Public sector entities which have adopted the accruals basis of accounting can also prepare consolidated financial statements in line with IPSASs 6, 7 and 8 if they have subsidiaries, associates and joint ventures.

You have also learnt that Non- Governmental Organisations (NGO) prepare financial statements. They can apply IPSASs when preparing financial statements. Other organisations use the IFRS for SMEs. This is a simplified version of IFRSs.

End of Chapter Questions

1. Describe the financial reports which should be prepared in accordance with Section 83 of the PMFA.

2. Discuss the major components of financial statements prepared under the Cash Basis IPSAS.

3. Explain the circumstances under which public sector entities may be exempted from preparing consolidated financial statements.

4. Discuss how financial statements are prepared by NGOs

Chapter 14

ACCOUNTABILITY IN PUBLIC SECTOR

14.1 Introduction

Accountability is the obligation of agencies and public enterprises that have been entrusted with public resources, to be answerable for the fiscal and social responsibilities that have been assigned to them. These agencies and public enterprises need to be accountable to the public at large as they carry out their duties and responsibilities.

Public accountability goes beyond "being called to account for one's actions". It is an account-giving relationship between the government and its citizenry. It requires the government to inform the public about its actions and decision, justify them and suffer punishment in cases of misconduct. Accountability can therefore not exist without proper accounting practices. Thus an absence of accounting means an absence of accountability.

Accountability ensures that actions and decisions taken by public officials are subject to scrutiny so as to ensure that government initiatives meet the intended objectives and that they respond to the needs of the community they are meant to be benefiting.

14.2 LEARNING OBJECTIVES

At the end of this chapter, students will be able to:

a) Explain the concept of accountability in the public sector.
b) Explain various mechanisms that are put in place to ensure public accountability in Malawi.
c) Explain the concept of corporate governance.
d) Describe how corporate governance relates to accountability in Malawi's public sector.
e) Explain roles and responsibilities of various organisations and or offices in ensuring accountability in the public sector.
f) Explain the issues that impinge public accountability.

14.3 THE CONCEPT OF PUBLIC ACCOUNTABILITY

Public officials are people's representatives or trustees and are accountable to the public for the performance of their various functions. The concept of public accountability therefore refers to the process of calling the executive arm of government to account for its actions. In order to make the government (executive) comprehensively accountable, various mechanisms have been devised in accordance with the political and administrative set up. Public accountability is therefore linked to the process that makes public officials and institutions explain, justify and rectify their actions and decisions taken in their capacity as trustees and make the officials accept the consequences of their actions. Public accountability refers to the process under which public officials and institutions are called by specific authority to account for their actions.

In other words, the concept of public accountability is the process employed to scrutinise and control the actions of officials and institutions that are in authority. Public accountability is a type of management process employed to scrutinise and rectify the actions of those holding and exercising public authority. Thus, it can be said that public accountability refers to any systematic process which makes powerful institutions and officials responsive to the public.

14.4 MECHANISMS OF ENSURING PUBLIC ACCOUNTABILITY

Different mechanisms are put in place in order to achieve the goals of public accountability. Accountability mechanisms can be categorised into internal and external mechanisms. Internal mechanisms are those that involve the official hierarchy or internal bureaucratic control within the government. These govern the accountability of senior officials, disciplinary proceedings, internal audit and others. External mechanisms of accountability involve institutions outside the executive which are meant to make the executive authorities accountable before the public. The key components of external accountability are:

a) There must be an institution or body external to the person or institution to which an account has to be given.
b) Accountability remains a process of interaction and its actions result in change.
c) The institution authorised to call a person or ministry to account has to demand answers from the person or ministry, seek rectifications of any wrong doings and capable of imposing sanctions or penalties on the person, ministry or whosoever has been called to account.
d) Officials or agencies undergoing scrutiny are to be responsive to the accountability institutions and be ready to accept the sanctions or penalties imposed.

Seeking explanation, taking justification, securing remedy and imposing sanctions are therefore the components of an accountability process or system.

Accountability mechanisms are designed to control and constrain the power of the government and its officials through the instruments of accountability.

External mechanisms of ensuring public accountability:

a) Legislative mechanisms

By law, the executive is accountable to parliament through various acts and the constitution. By law, the executive is required to formulate plans (budget) of how it intends to use the resources given to them and provide the same to parliament. Parliament scrutinises the budget and passes it having made necessary amendments. After passing the budget, the executive is legally allowed to spend within the agreed appropriations. To ensure the executive does spend within budget, various parliamentary committees are in place. One of these committees is the public accounts committee. This committee is mandated to look at reports from various ministries and government agencies. Ministers are requested (through the public finance act), to table and explain reports in parliament. Where necessary, parliament demands corrective measures to be taken by the executive.

Legislative committees are assigned numerous functions that include authorising expenditure, reviewing legislation and scrutinising key policies and executive actions. Ministers and other senior government are summoned to appear before the committees and asked to explain the administrative actions. Thus parliamentary committees are a major source of strengthening accountability through separation of powers between executive and legislature. Parliamentary committees are have the right to seek information and / or opinion from public officials as well as any other interested groups, persons and stake holders to balance and scrutinise the process of public accountability.

b) Judicial review

The judiciary also have a constitutional role to hold the executive to account for its actions. Judicial review of executive actions is legitimate and in most cases findings and decisions of the judiciary are binding on the executive. Judicial review involves scrutiny of executive actions and policies through courts and other judicial institutions. The judicial process makes the executive agencies explain and justify their actions and decisions. At the same, judicial process empowers citizens to contest the decisions of the government. Judicial activism encourages the people to seek judicial solutions to executive policy issues thereby increasing the importance of courts and other tribunals like the anti corruption bureau and the office of the ombudsman as ways of ensuring public sector accountability. Courts have powers to overturn the decisions of the executive and enforce remedy and sanctions.

c) Audit

Audit is one of the very traditional approaches in ensuring accountability of public officials and institutions. In Malawi, government audit is mandated by the Public Audit Act 2003. The Act requires the appointment of an Auditor General whose broad responsibility is to audit and report on financial performance of all government institutions, agencies and statutory corporations. The work of the Auditor General is not limited to financial audit but it also covers performance audit. The Auditor General reports to the National Assembly (through the Speaker of Parliament) and the President. It can therefore be said that as a mechanism of ensuring public accountability, the Auditor General and the National Audit Office fall under both internal and external mechanisms. The auditor general is mandated under the Public Audit Act 2003 to call upon any government official to account and / or explain any transactions for which they are responsible.

Internal Mechanisms of Ensuring Public Accountability

Internal mechanisms of ensuring public accountability involve the official hierarchy of the government. These include accountability by ministers and senior government officials, disciplinary proceedings, internal audit and inspection and other measures instituted from time to time. To this extent, the government issues (among other documents), Treasury Instructions and Desk Instructions and other circulars (See chapter four).

14.5 CORPORATE GOVERNANCE

Corporate governance refers to the mechanisms, processes and relations by which corporations are controlled and directed. Governance structures are put in place to identify the distribution of rights and responsibilities among different participants in the corporation. This includes rules and procedures for making decisions in corporate affairs. In other words, corporate governance is the process and structure used to direct and manage the business and affairs of an institution with the objective of ensuring its safety and soundness and enhancing shareholder value.

The first code of corporate governance in Malawi was published in 2001 by a task force put together by the Society of Accountants in Malawi (SOCAM), now Institute of Chartered Accountants in Malawi (ICAM). Due to the developments corporate governance practices and enactment of new laws and some shortfalls identified in this first code, it became necessary that the code be revised. Accordingly, on 1 June 2010 Malawi code II was launched. This code was published by the Malawi Institute of Directors.

- ❖ The code deals with appointments, duties, responsibilities of various office bearers among other provisions. It is concerned with the establishment of an environment conducive to enabling organisations to grow, thrive, survive and create sustainable development for Malawi. The provisions are applicable to all organisations be it public or private.

- ❖ While conforming to the provisions of the Malawi code II is one way of ensuring accountability in the public sector, the uniqueness of certain operations / institutions may require development of specific codes of ethics in order to address specific issues. In this regard, various documents / guidelines have been developed, these include;
- ❖ Corporate Governance Guidelines. These were issued by the Reserve Bank of Malawi and apply to all entities licensed under the Banking Act, 1989.
- ❖ The Internal Audit Charter. This was published by the Minister of Finance in February 20111.

14.6ROLES AND RESPONSIBILITIES IN PUBLIC SECTOR ACCOUNTABILITY

In order to ensure accountability in the public sector, various ministers and controlling officers have specific roles and responsibilities that they are expected to play. The Minister of Finance has undoubtedly the biggest responsibility in ensuring public sector accountability. This is complimented by the responsibilities of the Secretary to Treasury, The Auditor General, The Accountant General and other controlling officers and ministers. The specific duties and responsibilities are covered under section 3 to 11 of the Public Finance Management Act. (See chapter one).

14.7 IMPINGEMENTS TO PUBLIC ACCOUNTABILITY

While there are several mechanisms that have been put in place to ensure accountability in the public sector, the reality is that there is very little accountability in the Malawi public sector. The following are some of the issues that impinge on public sector accountability in MALAWI:

a) Expanded and complex organisational structure of the government and its agencies. With the passage of time, the Malawi government structure has grown and become complex. The interrelationships between the government, its agencies and the development partners are no longer straight forward. This has led to some ministers not being able to properly gather systematic information about the performance of their subordinate offices hence unable to directly take responsibility of holding various controlling officers accountable.

b) Parliament and composition of parliamentary committees. The legislature is considered to be the most powerful mechanism of ensuring public accountability. However, voting and or contributing to issues brought before parliament is done along party lines. Parliament is dominated by the party that is in majority which in most cases becomes the ruling party presiding over the executive arm of government. It therefore becomes difficult for parliament to make the executive accountable as the voting will always go the government way. Similarly parliamentary committees are chosen on party lines and voting of such committees also follows party connections.

c) The process of approaching courts through lawyers to address public accountability issues is very expensive and cumbersome. This renders accountability through judicial review unreachable by many citizens. In addition, Malawi courts are excessively slow thereby delaying and eventually denying justice to public complainants.

d) Absence of monitoring and disciplinary action. Despite the enactment of several acts and issuing of several instruction and circulars, there are very few controlling officers that are concerned and make follow ups as to whether or not the said documents are being followed. Most civil servants are of the view that regardless of what they do, they are unlikely to be disciplined or called upon to account.

e) Appointments. Most of the appointments (auditor general, director of anti-corruption bureau, accountant general, chief justice, ombudsman, etc) are made by the President who is also the head of the executive arm of government. These positions are meant to foster accountability in the public sector but are again in most cases appointed on party lines. The interrelationship of these public officers within their party machinery makes it difficult for them to act on certain issues.

f) Lack of skills. We still have a lot of officers in the public service who have risen up the ranks due to having worked for the government for a long time. Such officers joined the government when most of the systems were manual. With the advent of computerisation, unless retrained, such officers are at a disadvantage in enforcing accountability in the public sector as they do not understand most what is going on in their own sections.

g) Existence of informal systems and powers. There are certain officers within the public sector who despite their positions are actually more powerful than their superiors. These are the officers who are used by politicians and other powerful people to by-pass the set systems. It becomes very difficult for controlling officers to discipline such officers for fear of losing their jobs.

End Chapter Summary

The chapter looked at accountability for the purpose of ensuring that the obligation of agencies and public enterprises that have been entrusted with public resources, are answerable for the fiscal and social responsibilities that have been assigned to them. You learned that these agencies and public enterprises need to be accountable to the public at large as they carry out their duties and responsibilities.
You also learned that public accountability goes further than only "being called to account for one's actions" but an account-giving relationship between the government and its citizenry. The government is required to inform the public about its actions and decision and justify them and suffer punishment in cases of misconduct. Accountability can therefore not exist without proper accounting practices. Thus an absence of accounting means an absence of accountability.

Accountability ensures that actions and decisions taken by public officials are subject to scrutiny so as to ensure that government initiatives meet the intended objectives and that they respond to the needs of the community they are meant to be benefiting.

Sample Questions

1. Explain the meaning of the concept of accountability in the public sector
2. Explain the roles of the following in ensuring accountability in Malawi Public Sector:

   a. Auditor General.
   b. National Assembly.
   c. Minister of Finance.

Chapter 15

VALUE FOR MONEY

15.1 Introduction

Value for money has become more prominent on the development agenda for a number of inter-related reasons. First, the development community has in the past been driven by performance criteria that are very different from those in other areas of public spending: how much is spent sometimes overshadows the more fundamental question of what the funds achieve. Second, aid agencies are increasingly expected to understand and demonstrate the value for money of their work to those who are paying the bills, i.e. tax payers. Third, a number of aid skeptics have claimed that aid does not work, is wasteful and should be downsized or abolished. Although these claims may not always be based on evidence, strong evidence is needed in order to demonstrate that aid is valid and managed well, and that those in charge of aid are constantly seeking to make it work better.

15.2 Learning Objectives

By the end of this chapter, students should be able to:

a) Define value for money
b) Explain reasons why it is on the agenda for achieving accountability)
c) Describe the concept of the 3E's - Economy, Efficiency and Effectiveness as they relate to value for money.
d) Explain the tools for measuring value for money to ensure accountability
e) Explain the Value for money for whom, of what and by when
f) Explain how Value for money can be achieved in the followings:

    i. Audit.
    ii. Procurement.
    iii.

g) Discuss how the avoidance of waste promotes value for Money
h) Review a practical case study on value for money and waste management and provide practical solutions

15.3Value for Money and Its Agenda for Achieving Accountability

Jackson P. states that Value for money (VFM) is about striking the best balance between the "three E's" − economy, efficiency and effectiveness1 (Table 1). It is not a tool or a method, but a way of thinking about using resources well. In the United Kingdom it is often used as a framework for assessing cost effectiveness across the public sector. A fourth "E" – equity – is now also sometimes used to ensure that value-for-money analysis accounts for the importance of reaching different groups.2

Table 1: **Some Basic definitions Concepts of Value for Money**

Economy	Reducing the cost of recoveries used for an activity, with a regard to maintaining quality
Efficiency	Increasing output for a given input, or minimizing input, with regard for maintaining quality
Effectiveness	Successfully achieving the intended outcomes from an input
Value for money. The optimum combination of whole life cost and quality (or fitness for purpose) to meet the user's requirement. It can be assessed using the criteria of economy, efficiency and effectiveness	

Table 2: Tools used in value for money

Cost-benefit analysis	A method to evaluate the not economic impact of a project. Expected benefits are estimated and monetized with inflation accounted for, and offset against project costs. The approach is most commonly used to inform in major infrastructure investment in both developed and developing countries.
Cost-effectiveness analysis	This method is used where monetizing outcomes is not possible or appropriate, most commonly in health, common measures include " Quality – adjusted life years"
Source: Adopted from definitions from UK National Audit Office and the EU source book on evaluating social- Economic Development.	

Value for money is not the same as cost-cutting or efficiency...

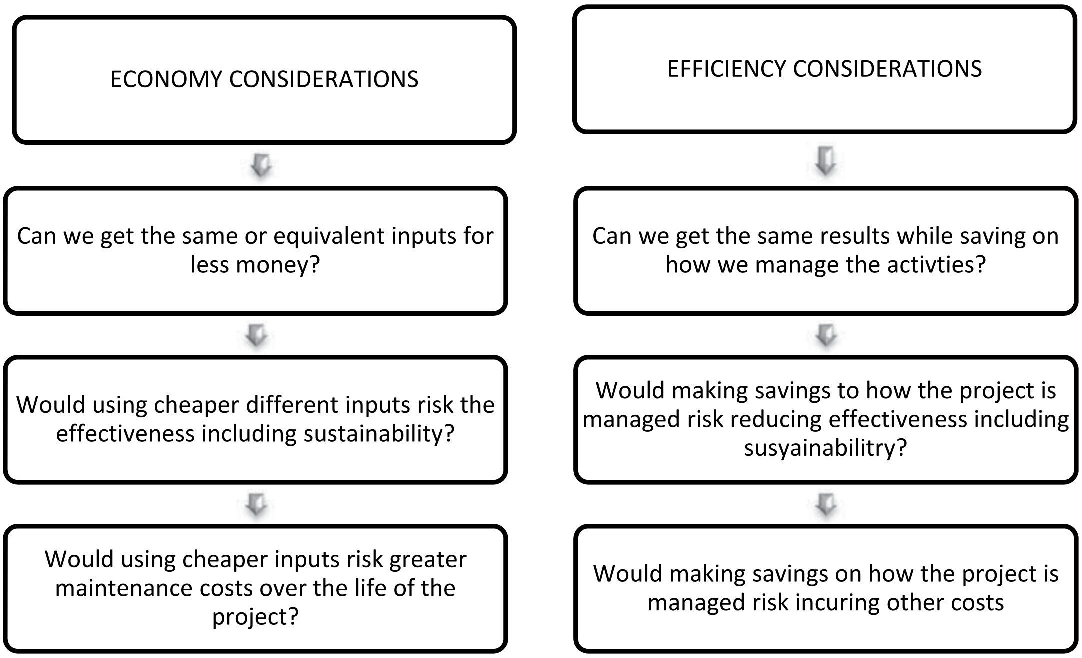
Value for money is not synonymous with either economy (i.e. reducing the cost of inputs) or efficiency. Value for money is about finding the right balance between economy, efficiency and effectiveness, and cannot be assessed through only one of these dimensions in isolation. Reducing the costs of inputs and making efficiency savings can either support or undermine value for money. Figure 1 shows a simplified logical flow of economy and efficiency considerations when determining the effectiveness and therefore value for money for a specific project.

Value for money does not need to be about monetizing everything and applying cost-benefit or cost-effectiveness analyses. These are tools which may be relevant to assessing value for money in some cases, but value for money is a much broader concept.

...and it aims at achieving good results.

Effectiveness is not at odds with value for money, but rather an important component of it. If the effectiveness of an activity is notably reduced because of a small cost saving, value for money is reduced. Similarly, while an activity may be very cheap and run efficiently, if it does not achieve results, it is not value for money. The quality of the outcomes is fundamental to understanding whether something is providing value. “Aid effectiveness” as defined in the Paris Declaration focuses on reducing inefficiencies in how aid is managed, which in turn can pave the way for aid to achieve good development results.

Figure 1: ECONOMY AND EFFICIENCY CONSIDERATION AS PART OF VALUE FOR MONEY



Value for money is relevant to development co-operation...

Some argue that development co-operation is fundamentally different to other areas of public spending and that value for money is not helpful, or that it dehumanizes the beneficiary. This argument states that development co-operation is different because:

i. it is just a small part of an intricate picture and
ii. it takes a long time to see the benefits. But neither of these issues is specific to development co-operation; both are also challenges to understanding the results of domestic social spending in the most developed and wealthiest countries.

Assessing value for money is harder in the development context than elsewhere, for two key reasons. First, in some developing countries, the availability of reliable information, notably statistics, is often of too poor a quality to make any reliable assessment. There is rarely a history of investing in research or looking at cost effectiveness in public spending, so few comparators, metrics and ways of creating proxies exist. Second, there is a lack of agreement on value for money for whom, of what and by when – issues this paper will go on to discuss. In particular, in international development, the question of value for money from whose perspective is important since the immediate beneficiaries and funders are not the same.

...but it has its limitations.

Assessing value for money is harder in the development context than elsewhere, for two key reasons. First, in some developing countries, the availability of reliable information, notably statistics, is often of too poor a quality to make any reliable assessment. There is rarely a history of investing in research or looking at cost effectiveness in public spending, so few comparators, metrics and ways of creating proxies exist. Second, there is a lack of agreement on value for money for whom, of what and by when – issues this paper will go on to discuss. In particular, in international development, the question of value for money from whose perspective is important since the immediate beneficiaries and funders are not the same.

15.4 Value For Money For Whom?

There is a valid concern that value for money is a donor preoccupation and that what it may mean for a donor is not the same as what it means for partner countries or for individual beneficiaries. As stated at the outset, donors focus on getting value for money for their tax payers, but what about beneficiaries and partner governments?

One genuine difference between international and domestic public spending is that while domestically beneficiaries and tax papers are broadly the same people, in international development spending, these two groups have never met. This disjuncture has two main implications:

- Indecision amongst donors about whom they are accountable to, and whose voice is important in holding them accountable. Donors are increasingly listening to the voices of their core funding constituencies. But it is not so clear if the political voice of beneficiaries is also receiving increased attention, despite the fact that end users can provide the best information about effectiveness (including relevance and sustainability). In many cases end users are not well enough represented to make their voice heard and remain hard to reach.
- Because tax payers do not experience first-hand the results of public spending, they demand detailed information. Tax payers want assurance that the people managing their taxes have thought about getting the most out of the money they have been entrusted with, that they have made decisions based on clear criteria and evidence, that they manage risk, and monitor and evaluate to ensure best possible outcomes.

While it is important to agree on whose perspective on value for money to understand, it is also possible to over-emphasize the difference. In reality, everyone wants results. While partner countries are less interested in the value for money a donor is seeking to achieve at the portfolio level, they have similar interests in getting good results and doing so as efficiently as possible in individual projects and programmes in their country. Individual beneficiaries are concerned with the benefits for their communities − sometimes short- and sometimes long-term. The value for money of an activity or programme can only be judged against intended objectives that are clearly stated and shared by donors and partners. If they are not shared, both aid effectiveness and value for money will be harder to achieve.

15.5 Value For Money Of What?

Of what exactly is there value for money? For some, value for money is at the level of the entire global portfolio, for others, it is of individual activities.
It is worth distinguishing between three main levels − the portfolio, country and project level − because value for money at different levels requires different approaches (Table 1). For example, looking at unit costs may be useful in deciding between two providers of a service within a single project, but comparing unit costs between whole countries can be misleading. Similarly, it is hard to compare value for money between sectors: for example, both education and agriculture are important, but focusing on one over another is a policy decision, and not a value for money decision. There is also a question of division of labour and co-ordination: donors need to ensure they don't all put their funds in the same countries and projects if this means other key areas − perhaps the riskier ones − are under-funded. Across all three levels, areas like procurement and administration costs have long been the focus of value for money considerations. For example, studies show that when procurement is tied, value for money is reduced: some believe by 15-30%.

Table 3: DIFFERENT LEVELS WHERE VALUE FOR MONEY IS RELEVANT

Level	Examples
The Global portfolio Donors consider value for money when allocating their overall budget and resources. Some are concerned that applying a value for money mind-set at this level will encourage donors to avoid riskier countries and sectors. However, this depends on how objectives are defined. If the donor has an objective of conflict prevention or reaching the most vulnerable people, then working in a fragile state can also be seen as good value for money.	United Kingdom (UK), Millennium Challenge Corporation, World Bank
Specific Country Programmes	UK , World Bank, AUSAid(Office of

A key consideration is how different parts of a programme fit together and how they dovetail with other activities contributing to an overriding objective. A country programme should also seek to capture synergies and make connections, including with what others are doing. In contrast different actors operating in silos, or the lack an overarching strategic frame work bringing individual activities together may not provide good value for money	Development Effectiveness or ODE)
Individual Projects and Programmes It is at the individual level that cost-benefit analysis, cost effectiveness and other tools may be relevant. In the majority of cases a less ambitious assessment of value for money will be more feasible.	World Health organization, Asian Development Bank, United Agency for International Development, Japan International co-operation Agency, International Finance Corporation.

15.6 Value for Money By When?

Short-term and long-term perspectives also create confusion in this debate. By when should the benefits of an intervention be realized in order for the costs to be justified? Some fear that applying a value-for-money perspective will lead to short-termism, but there is no rule about timescales. The timeframe in which donors or partners expect to see returns on their investment should be defined in each case, as some types of interventions take much longer to bear results than others. The obvious exception to this rule is humanitarian assistance, which requires short-time horizons alongside linkages to longer-term perspectives.

15.7 Reducing Risk Aversion

There is a danger that applying value for money could lead to a risk-averse culture in development co-operation, for example:

- At the portfolio level, allocating aid to the "best performing" countries will mean the more difficult contexts, such as fragile states, lose out. However, by looking at where need is greatest and where conflict prevention can save millions, it can be seen as good value for money to invest in those countries.
- Insisting on exact measurements of efficiency, unit costs, and cost-benefit in all projects can exclude types of projects where these things are harder to measure, encouraging a focus on things that are easier to measure rather than on what is most needed or even most effective. It can also discourage innovation, since it tends toward the tried and tested types of project, with comparators and data, picked for ease of measurement rather than expected effects. Ultimately, this type of risk aversion can be very damaging to real value for money.

- It can encourage a focus on easy-to-reach groups rather than riskier targets, such as those in harder-to-reach areas, minority groups and others – one reason why adding an equity dimension to the analysis can be helpful. Ensuring the original objectives set out who should benefit also reduces this type of risk aversion.

By forging a stronger link between risk analysis and value-for-money considerations, this potential for risk aversion can be reduced.

15.8 Applying A Concept Not A Straitjacket

Applying the concept is possible and useful, but it is also subjective and different donors do so differently. The crucial starting point is to define i) clear objectives and ii) clear parameters (such as acceptable timeframes and levels of risk) in each case and at different levels. Indeed, what in effect this paper has emphasized is good project planning, management and review. Adding a value-for-money dimension into good project management – if it is not there already – will more often mean making a series of informed but subjective management or judgment calculations, rather than mathematical calculations.

The paper has also outlined some key challenges. One is a simple question of the availability of data: the data to invest in and improve over time, the right decisions can be made now. One other big issue this paper has raised is the disconnection between funders and beneficiaries. Unlike in most other areas of public spending, in international development the funders and the beneficiaries are totally separate groups. This means donors and partner government have dual lines of accountability. The challenge lies in drawing the two together, even though both funders and beneficiaries basically want aid funds to be used as effectively and efficiently as possible.

In conclusion, there are limitations to value for money in development co-operation and challenges around data and accountability, but the concept is useful as part of good project management, applied pragmatically and realistically. So while different donors and organisations have achieved varying levels of progress in applying the concept of value for money − whether they call it that or something else − the focus now should be on taking the discussion further in order to raise the bar in practice and achieve as much as possible with aid funds.

15.9 How Value for Money is achieved through Audit

The UK's public sector audit agencies have worked together to develop indicator sets for measuring the value for money performance of five core functions: finance, human resources, information and communication technology, estates management and procurement.

a. The indicators have been designed for use by senior managers across the public sector to help them monitor and improve the value for money performance in their organizations' corporate services. These have been identified by the Government as a priority area for securing efficiency improvements and releasing resources for use in delivering front-line services.
b. The wider focus on value for money rather than efficiency alone reflects the audit agencies' concern to see public sector organizations improve the

effectiveness and professionalism of corporate services functions, as well as their efficiency. This will also aid decisions on shared services initiatives.

c. Use of the indicator sets is to be voluntary, with individual organizations deciding whether or not they would add value to their own performance management systems, benchmarking activities and improvement plans. This reflects a shared commitment by the audit agencies to improve the quality of performance information used by public sector bodies, while avoiding any additions to their information burden.

d. The scope of the indicator sets is not comprehensive but focuses instead on those aspects that are believed to be key for value for money performance in the five corporate services functions. The indicators have been extensively road-tested: some 100 organizations across England, Scotland and Wales have been involved in their development, including over 30 pilot sites drawn from central government, local government, and the NHS, fire and police sectors. We will continue to develop the indicator sets to increase their value to the organizations using them.

e. The indicators have been designed to ensure that all those who choose to gather the data will be able not only to assess their own value for money performance but also compare their results against other public sector organizations elsewhere in the UK. We believe that this will be of substantial benefit to many chief executives and senior management teams.

f. One third party provider already has plans to launch a benchmarking service using the indicators.

15.10 How Value for Money is achieved through Procurement

As per the Public Procurement Best Practices Guide (Public Procure Protectorate), the purpose of public procurement is to obtain the best Value tor money (BVFM) and to do this it is important to consider the optimum combination of "whole life cost" (i.e. acquisition cost, cost of maintenance and running costs, disposal cost) of a purchase and its fitness for purpose (i.e. quality and ability to meet the contracting authority's requirements). This definition enables contracting authorities to compile a procurement specification which includes social, economic and environmental policy objectives (SEE criteria) within the procurement process. "Whole life cost" (WLC) includes both quantifiable and non-quantifiable or intangible costs and benefits.

Procurement processes within contracting authorities can only result in best value for money when the following ten guiding principles governing the administration of Cypriot public procurement have been satisfied to an acceptable extent:

The ten guiding Principles to achieve Best Value for money

Competition - Competition among suppliers should be encouraged in the most efficient and effective way.

- **Efficiency & Effectiveness-** Efficiency and effectiveness should be sought in the procurement process to secure value for money for the contracting authority.
- **Fairness/ Non Discrimination** – Act fairly during the whole procurement lifecycle without imposing unnecessary burdens or

constraints on suppliers or potential suppliers. Avoid any favourably treatment to specific supplier or potential supplier.

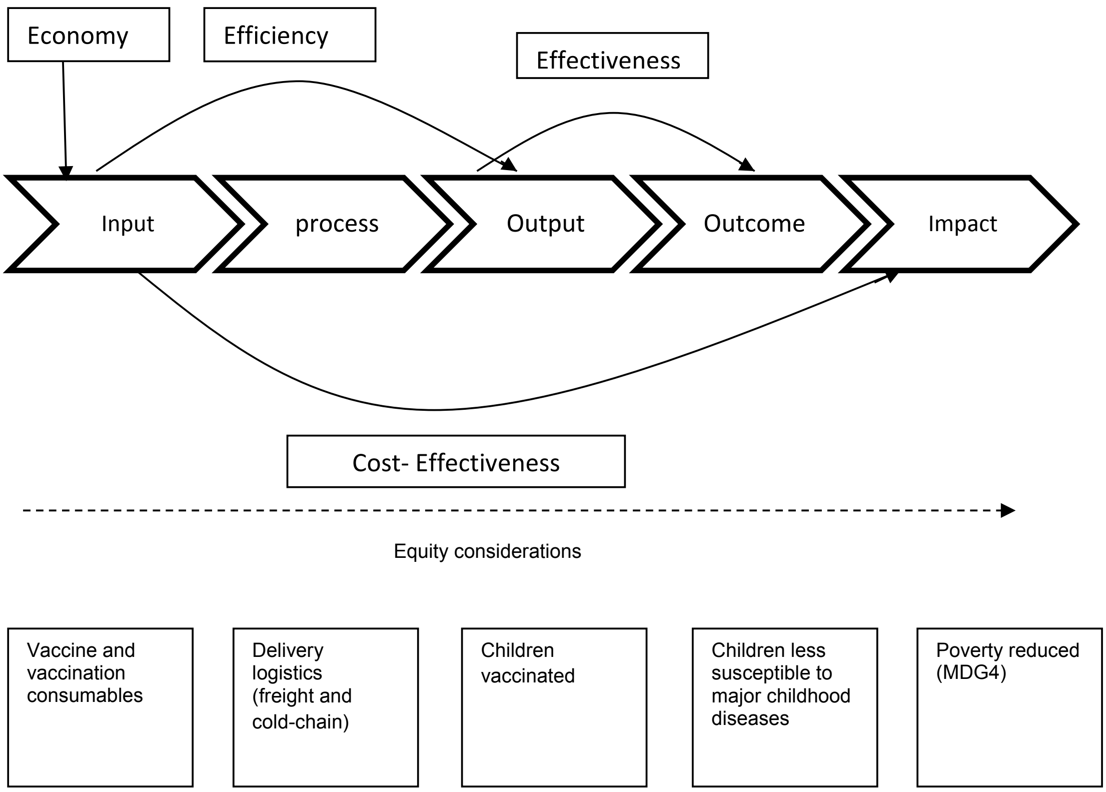
- **Objectivity/Integrity/ Honesty** – Declare any conflict of interest that affects or appears to affect their judgment; Reject gifts, hospitality and benefits of any kind from supplier or a potential supplier, which might be reasonably seen to compromise their objectivity or integrity.
- **Transparency** – Ensure equal conditions and accessibility to all economic operators, by informing them in an open and transparent way.
- **Accountability** – Be accountable for the responsibilities assigned to them, as well as for the decisions made by them, keep the appropriate records.
- **Confidentiality/ Accuracy of Information/ Protection of Intellectual Property** – Respect the confidentially of information acquired in the course of performing their duties and not disclose any such information without having proper and legitimate authority to do so.
- **Conformity to the Laws Serving the Public Interest/ Responsiveness** – Conform to the national and EU legislation, as well as to other requirements and commitments regarding public procurement. Serve the public interest and act with responsiveness in using the “taxpayers” money.
- **Professionalism** – Work to a high standard of professionalism by complying with the legislation in force and applying the best practices.
- **“Green purchasing”**- Exploit the opportunities to incorporate environmental considerations and issues in each stage of the procurement lifecycle.

15.11 A Practical Application Of Vfm Principles By Dfid

Value for Money in DFID’s programme means:

To maximize the impact of each money spent to improve the poor people’s lives.

Figure 1: DFID’s 3Es Framework
3Es



3Es

- **Economy:** Are we or our agents buying inputs of the appropriate quality at the right price? (Inputs are things such as staff, consultants, raw materials and capital that are used to produce outputs)
- **Efficiency:** How well do we or our agents convert inputs into outputs? (outputs are results delivered by us or our agents to an external party. We or our agents exercise strong control over the quality and quantity of outputs)
- **Effectiveness:** How well are the outputs from an intervention achieving the desired outcome on poverty reduction? (Note that in contrast to outputs, we or our agents do not exercise direct control over outcomes)
- **Cost-effectiveness:** How much impact on poverty reduction does an intervention achieve relative to the inputs that we or our agents invest in it?

Results: DFID's 3Es framework shows that the Value for Money agenda is not just about cutting costs. What we're directly buying with taxpayer money (outputs) and what this transforms into at the development outcome level are key parts of the VFM agenda. The results agenda is about being clear what outputs and outcomes we can realistically expect from an intervention whether this is from a direct DFID intervention or working through a partner.

These results are not just short-term tangibles but should also be longer-term sustainable benefits for developing countries. We need to continue to drive forwards the agenda and influence all our partners to get better at expressing results.

Example 1 - Effectiveness: Are DFID's education investments delivering education outcomes of value?

The National Audit Office (NAO) produced a report on the UK's Bilateral Support to Primary Education as part of their VfM Studies in 2010. One of its main criticisms was that DFID was focusing too much on the attendance of students and not enough on children completing primary school and securing good learning outcomes. For example in Ghana, only 26% of final grade primary school children are proficient in English and only 11% in maths. So we were not ensuring that investment in enrolment was paying enough dividends for the children going to school, many of them for the first time.

In response, DFID has committed to all its education programmes taking steps to measuring and monitoring learning outcomes - and all our Operational Plans must measure primary completion rates.

Costs: VfM doesn't mean we only do the cheapest things, but we do have to get better at understanding our costs.

Just because educating a girl in Ghana might cost less than educating a girl in DRC it doesn't mean we should divert all our funds to girls' education in Ghana. Context matters and we take this into account in our VFM judgments. Costs are going to vary based on the different environments we work in. The hardest to reach people and places are more expensive to deliver development results to. We don't shy away from this. The important thing is to understand our cost drivers and to make sure we get the desired quality of inputs at the cheapest possible price. Where we work through partners we need to be confident that they have the right systems and behaviours in place to also do this. We need to encourage them to continually improve in these areas.

Example 2 - Economy: Key education unit costs
DFID's 2009 Education Portfolio Review identified wide variations in key education unit costs. For example on text-books, there was a ten-fold variance between highest and lowest cost countries, with a text-book costing $5 in Nigeria and $0.5 in Vietnam. The 2010 NAO Education VFM Study found that "unit cost variations remained unexplained" and "only 3% of projects tracked cost-effectiveness or efficiency. As a result, DFID cannot easily analyze trends in value for money over time or between different providers".

In response, DFID has committed all its education programmes to investigate opportunities to drive down unit costs without compromising education quality.

We expect all new Education Business cases to systematically track 5 key education input unit costs: teacher salaries; teacher training; textbooks; school/classroom construction; girls' education stipends. We will also seek to track 4 key education output unit costs to the extent possible: cost of supporting a child in primary school; in lower secondary school; to complete primary school; to graduate primary with minimum learning achievement

We need to understand what works- a judgment based on the strength of evidence supporting an intervention and making our assumptions explicit.

The development results that we actually achieve from a programme depend on whether our intervention logic was correct from the outset. This depends on the strength of the evidence behind the intervention and whether our assumptions were correct. The intervention will represent poor value for money if either the evidence or the assumptions are wrong and because of this we fall short in the development results we actually achieve. We are introducing a variety of tools to help staff access the latest evidence in various themes including systematic reviews of evidence. These will be made available to staff through a 'one-stop shop' on evidence. In the areas where there is limited evidence about what works, we need to ensure there are strong monitoring and evaluation plans in place and we should consider the need for impact evaluation. We should encourage our partners to take a similar approach.

- **We don't just do the easiest things to measure, but the agenda does mean we have to get better at measuring.**

We are concerned with long-term, transformational change. We care about the results achieved of all development resources not just our own. But we need to be better at articulating what we are getting for our money. It's very hard to quantify some benefits e.g. what is the value of a free and fair election? But demonstrating results and tackling difficult development issues are not alternatives- we need to do both.

- **We need to be more innovative in assessing value** e.g. explore ways of getting views and opinions from those who are intended to benefit from our aid. Where it proves impossible to get sensible measures of value at the impact or outcome level then we need to make sure we are measuring inputs and outputs and have good evidence that shows how what we are doing will lead to the intended outcome.

- **We need to be clearer about attribution.** DFID can take credit for outputs, e.g. trained teachers, which occur as a direct result of inputs we are responsible for (attribution), although we cannot claim direct responsibility for outcomes such as learning, which can be driven by a number of factors.

  Despite this, we still need to record our estimated contribution to these outcomes. We need to encourage all those we work with to also get better at working out their attribution and contribution to results.

- **Our partner countries play a critical role in delivering results.** The domestic political process in each country is the key determinant of development outcomes and trajectory in that country. For this reason we support partner countries to lead their own development and we try to work with the grain of the political process. Our relationships and influence with partner countries can have a major impact on the VfM of our aid programme. We will be increasing our work with country partners to help them to improve the VfM of their spending. For instance, this will be an important part of our strengthened approach on Budget Support.

Example 3: Efficiency- Improving the efficiency of education systems

The NAO report on our bilateral support to primary education identified the high rates of teacher absenteeism and pupils repeating years or dropping-out as particular areas of concern for wasted investment. Although we were contributing to the governments' budget we weren't discussing these important issues with them. If the teachers aren't at work, we and the partner government are paying money that isn't delivering a benefit to children money that might have delivered more benefits to them or other vulnerable groups by using it in different ways.

In response, DFID is improving the efficiency of education systems through benchmarking and accountability initiatives. DFID and World Bank education advisers will use a range of tools from these initiatives to inform our education programmes and to support our partner governments.

Our Commercial Strategy is a key part of the VfM agenda.

Often our spend is through partners and the challenge is to help improve their delivery of VfM. Our Commercial Strategy shows how we can use procurement tools and greater commercial awareness to achieve this: in our funding choices; in the design of our programmes; through assessment of partner capability and in understanding and leveraging impact from markets.

- **How we manage our aid programme is vital.**

We need to have strong programme management to make sure our programmes stay on track, achieve the intended results, and are delivered on time and within budget. This can often be very challenging, especially in situations when we depend on the actions of others rather than only our own. We need to be realistic at the outset about what our programmes can achieve and we have to be regularly reviewing all our programmes to make sure they continue to represent good value for money. Where programmes no longer represent good VfM they should be stopped.

- **Improving financial management across the organization remains critical.**

  In order to ensure that we get the most value from all our investments we are driving forward improvements in our monitoring and reporting capability to ensure that we can both track and reallocate resources where this is appropriate. We will improve our assessment of the financial case for each intervention and our work on allocations will ensure that funds are targeted at countries and organizations which can make the most impact.

- **We are interested in improving the VfM of all aid, not just DFID's.**

  We will be placing greater focus on the extent to which partners (such as Civil Society and Multilaterals) who use DFID funds, achieve VfM. This will be achieved through ensuring our partners understand what we mean by improving VfM for their type of spending and rigorously monitoring progress through our Annual Reviews and Project Completion Reports.

Example 4: Broader VfM issues to be considered when working with Partners (Multilateral example)

The MAR assessed the VfM offered by the 43 Multilateral Agencies that DFID funds. This comprehensive assessment reviewed each agency against a set of 10 key criteria; whilst it incorporated issues of cost and value consciousness linked to the 3Es it also incorporated broader issues that impact on an organization's VfM. For, example the MAR assessment of IDA found that the way that they interacted with their partners was poor, particularly around their use of country systems – this behaviour reduces the overall VfM IDA offers.

In response to this through the IDA 16 replenishment negotiations DFID ensured that their results framework has specific targets to track and improve their use of country systems.

Choice of delivery agent matters. The MAR assessed the VfM offered by Multilaterals at a corporate level - it sets out our understanding of their strengths and weaknesses. When choosing a delivery agent at country level offices should satisfy themselves that the weaknesses identified by the MAR either do not apply or can be effectively mitigated (with the appropriate actions identified).

How we ensure Value for Money in our Aid Programme

Our VfM framework has two key components:

(i) A VfM cycle which ensures that we allocate and manage resources so that we achieve the maximum development impact; and

(ii) Six VfM enablers that help drive the quality of our work within this VfM cycle.

These are all mapped out in figure 2 and their VfM purposes are explained in tables 1 and 2. Many parts of the organization contribute to this VfM cycle and these roles are also explained in these two tables.

The Investment Committee doesn't feature in the diagram but plays a key role in overseeing the whole VfM cycle and setting priorities for its improvement d the partner government is paying money that isn't delivering a benefit to children money that might have delivered more benefits to them or other vulnerable groups by using it in different ways.

In response, DFID is improving the efficiency of education systems through benchmarking and accountability initiatives. DFID and World Bank education advisers will use a range of tools from these initiatives to inform our education programmes and to support our partner governments.

- **Our Commercial Strategy is a key part of the VfM agenda.**

  Often our spend is through partners and the challenge is to help improve their delivery of VfM. Our Commercial Strategy shows how we can use procurement tools and greater commercial awareness to achieve this: in our funding choices; in the design of our programmes; through assessment of partner capability and in understanding and leveraging impact from markets.

- **How we manage our aid programme is vital.**

  We need to have strong programme management to make sure our programmes stay on track, achieve the intended results, and are delivered on time and within budget. This can often be very challenging, especially in situations when we depend on the actions of others rather than only our own. We need to be realistic at the outset about what our programmes can achieve and we have to be regularly reviewing all our programmes to make sure they continue to represent good value for money. Where programmes no longer represent good VfM they should be stopped.

- **Improving financial management across the organization remains critical.**

  In order to ensure that we get the most value from all our investments we are driving forward improvements in our monitoring and reporting capability to ensure that we can both track and reallocate resources where this is appropriate. We will improve our assessment of the financial case for each intervention and our work on allocations will ensure that funds are targeted at countries and organizations which can make the most impact.

- **We are interested in improving the VfM of all aid, not just DFID's.**

  We will be placing greater focus on the extent to which partners (such as Civil Society and Multilaterals) who use DFID funds, achieve VfM. This will be achieved through ensuring our partners understand what we mean by improving VfM for their type of spending and rigorously monitoring progress through our Annual Reviews and Project Completion Reports.

- **Choice of delivery agent matters.**

  The MAR assessed the VfM offered by Multilaterals at a corporate level - it sets out our understanding of their strengths and weaknesses. When choosing a delivery agent at country level offices should satisfy themselves that the weaknesses identified by the MAR either do not apply or can be effectively mitigated (with the appropriate actions identified).

Example 4: Broader VfM issues to be considered when working with Partners (Multilateral example)

The MAR assessed the VfM offered by the 43 Multilateral Agencies that DFID funds. This comprehensive assessment reviewed each agency against a set of 10 key criteria; whilst it incorporated issues of cost and value consciousness linked to the 3Es it also incorporated broader issues that impact on an organization's VfM. For, example the MAR assessment of IDA found that the way that they interacted with their partners was poor, particularly around their use of country systems – this behaviour reduces the overall VfM IDA offers. In response to this through the IDA 16 replenishment negotiations DFID ensured that their results framework has specific targets to track and improve their use of country systems.

What this means for you

- The VfM agenda involves a culture change across DFID. The increased transparency and scrutiny means we need to be prepared to be challenged on what we do and how we do it.
- This means that we have to be confident in the decisions we have taken and how we implement. We have to be sure that we have adequately considered the

costs and benefits of what we plan to do and that we have a solid evidence base to demonstrate why what we're doing will achieve the expected results. We also need to manage our implementation well and take corrective action where necessary.

- When working with partner organizations we need to ask additional questions to help take account of the different type of objectives and ways of working that other organizations may have.
- Ultimately, it all comes down to maximizing the impact of each pound spent to improve the lives of the poor.

Below are some examples of expected VfM behaviours and responsibilities for people with different roles across the organization.

Management Board

- Accountability for VfM at the corporate level.
- Ensuring that all our programmes represent good VfM.
- Challenging all aspects of our programme; and
- Consistently model good VfM behaviour;

Investment Committee

- Advise the Management Board/ Ministers on:
  1. strategic investment choices;
  2. resource allocation priorities; and
  3. whether our mix of investments is aligned with our strategic vision.

- Provide assurance to Management Board that our programmes represent good value for money; and
- Ensure DFID's investment appraisal procedures and practice are fit for purpose and champion the use of evidence and quantification of outputs.

Head of Office/ Department

- Accountability for delivery of VfM,
- Understand how VfM applies to DFID work and how their behaviour will affect others;
- Building capability in all their staff; and
- Be prepared to challenge, and consistently model good VfM behaviour.

Advisory staff

- Include in their role making the link between results and returns (i.e. what we're getting for our money);
- Ask questions and challenge received wisdom- both on allocative decisions and design/implementation;
- Champion the use of evidence of what works;
- Share VfM knowledge with other donors and partners;
- Contribute creative thinking on VfM; and
- Feel responsible for VfM in their area/sector.

Programme Staff

- Feel VfM matters and is valued by DFID;
- Understand practical VfM impact of decisions and how to assess options from a VfM perspective (both the 3Es and the additional issues considered in VfM perspective for partner organizations);
  - Managing Project Cycle processes;
  - Robust monitoring;
  - Improve delivery by understanding basic good practice in procurement and financial management;
  - Accurately inputting of data;
  - Writing about our decisions in plain English; and
  - Understand how they can make a difference on VfM through challenging decisions.

VfM Experts – e.g. those working on guidance to practitioners

- Understand how their work links to DFID's overall mandate;
- Speak with a single voice/ core script on VFM;
- Champion VFM in DFID and with partners;
- Embrace overlaps between disciplines; and
- Feel part of an expanding, multi-disciplinary community and an effective network.

Table 3: Purpose of VfM Enablers

VfM Enablers	**Process/ Work-stream/ Behaviour**	**VfM Purpose**
Our Skills and Behaviours	Diligence, Good sense and skills of DFID staff.	Staff behaviours are crucial to enabling VfM. For VfM agenda to succeed we all need to show diligence in what we decide to do and how we implement (knowing what works and being sure that we are delivering development results in the most effective and efficient way.) This involves a high level of skill and diligence from our staff.
Transparency	UK Aid Transparency Guarantee and International	Publishing strategy documents, project data and documentation, and individual payments opens our

	Aid Transparency initiative	decisions to public scrutiny and enables the public to judge whether we are delivering value for money
Internal Scrutiny	• Existing Management decision-taking process • Internal Audit • Quality Assurance Unit • Special Measures for Multilaterals	□ The first line of scrutiny comes internally through our management chain. □ Managers take responsibility that all aspects of their work represent good Value for Money □ Provides internal scrutiny and informs the Accounting Officer (the Permanent Secretary) and DFID managers on the whole system of risk management, control and corporate governance. □ The quality of DFID appraisals and the Business Case more generally is assured through the Quality Assurance Unit and Chief Economist □ The quality of DFID appraisals and the Business Case more generally is assured through the Quality Assurance Unit and Chief Economist □ Improve the performance of multilaterals offering poor value for money - signal to these multilaterals that DFID wants an urgent improvement in its performance and will monitor progress carefully. Progress will be reviewed after two years
External Scrutiny	• Independent Commission for Aid Impact (ICAI)	• Independent evaluations that focus on whether value for money has been achieved for UK taxpayer and impact of aid has been maximized;

	• National Audit Office / Public Accounts Committee	• Systematic process of follow up on recommendations resulting from these evaluations fosters lesson learning • Continue to carry out VfM studies on DFID to scrutinize whether we are delivering good VfM.
Results & VfM tools	• Evidence • Results & VfM Indicators • Sector VfM Framework,	• We need to understand what works best to achieve our results and ensure investment decisions represent good VfM; RED is leading on research to establish what works and what doesn't. • If evidence is flawed or assumptions don't hold we risk not achieving our results; • DFID will open in July 2011 a quality assessed internet based evidence databank, which includes evidence papers, systematic reviews and access to a wide range of research and e journals so staff know what type of interventions are likely to work in particular situations The results agenda is about being clear what outputs and outcomes we can realistically expect from an intervention If we don't know what we're buying we can't assess whether it represents good VfM. Indicators help us measure results achieved. VfM indicators are useful tools to help signal whether interventions represent good VfM. Key international institutions have knowledge leadership roles (e.g. WB) and roles in benchmarking performance and unit cost data. We need them to do that work so we in turn have better data on our results & VfM

	guidance and capability • Commercial Strategy	Strengthen the quality of our sector VfM work: develop a set of core indicators in *sectoral results and VFM frameworks* and embed at each level of DFID Business Planning undertake greater internal benchmarking on unit costs and comparators of sectoral investments Provide relevant sectoral evidence on what works to achieve results at good value for money; monitoring of aggregate portfolio performance build DFID wide sectoral results and VfM capability engage international system and institutions to get better results and VfM from global sectoral investments - and strengthen international benchmarking of country results and unit costs; Focusing strategically on getting VfM from all commercial activities.
System Development	Innovating and Improving	Bringing in improvements to VfM cycle e.g. BAR and MAR for allocation process, new Business Case, Log frames, Annual Reviews etc.
Influencing Partners	• Ability to affect Others	Being aware that DFID is often only one of many funders in each organization, and so may only hold a small fraction of the political and financial capital Nonetheless, DFID must effectively use its financial and human resources to influence third parties to implement VfM reforms at a more holistic level (as outlined in the MAR) and engage other partners and donors in support of this agenda. Coordination at both HQ and country level helps to strengthen our ability to do this.

15.12 Wastage of Resources in Public Sector

The term wastage of resources shall have a wider scope and in this case shall include the terms fraud, waste and abuse since are used interchangeably, even though they are conceptually and legally distinct. They nevertheless often coexist, frequently arise from the same underlying factors, and, in terms of prevention, they are often amenable to the same countermeasures. Fraud against the government is more easily accomplished in an environment of administrative and fiscal laxity. Indeed, it may well be that a significant proportion of revenue loss flows less from deceit than from careless or inefficient management of public resources. In any event, the appearance of carelessness and inefficiency can be an invitation to perpetrators of fraud.

The value of public resources lost each year in Malawi because of fraud, waste and abuse defies precise quantification, but almost certainly runs to many billions of Kwacha. In the climate of fiscal restraint which has become normal for the Malawi government, it is more important than ever those public funds are managed responsibly.
There are three basic modes of government activity in which fraud can occur - paying, collecting and contracting. Governments bestow a variety of benefits, subsidies, and payments to individuals and organisations. Not all recipients are entitled to what they receive. Governments collect revenues from individuals and organisations, in the form of taxes and duties, or as payment for services. There are those who do not pay what is due. Governments themselves are consumers of goods and services. There are those providers of goods and services who charge the government for goods not delivered or for services not rendered, or who knowingly provide defective or substandard products. Beyond this, governments control billions of dollars of capital resources, some of which are vulnerable to conversion for private use by unauthorised persons.

Fraud against the government is by no means the exclusive province of unscrupulous citizens. Fraud can be perpetrated by individuals and by companies as taxpayers, contractors, or as beneficiaries of public payments. But government employees themselves can be offenders. And certain types of fraud require the collaboration of public sector employees and citizen offenders.

The problem of fraud against the government cannot be analysed in isolation from the more general issue of unnecessary revenue loss. It is often more useful to focus upon a wider constellation of phenomena which include not only fraud, but waste and abuse in public programs.

Defining fraud, waste and abuse

Fraud is understood to mean a dishonest and deliberate course of action which results in the obtaining of money, property or an advantage to which the recipient would not normally be entitled. This would include, inter alia, theft of government property, or the submission of artificially inflated invoices by a contractor.

Waste entails the expenditure or allocation of resources significantly in excess of need. An example would be the negligent or reckless requisition of three times as much perishable produce as required. Waste need not necessarily involve an element of private use or of personal gain, but invariably signifies poor management.

Abuse, defined here as a subset of waste, entails the exploitation of "loopholes" to the limits of the law, primarily for personal advantage. One, abuses a system of travel allowances by intentionally and unnecessarily scheduling meetings in another city on a Friday afternoon and on the following Monday morning in order to claim per diem over a weekend. Another example would occur where a person, transferred to an overseas diplomatic posting, uses the diplomatic position to export a luxury vehicle for personal use at the posting and subsequently, prior to returning to Malawi, sells the vehicle for a substantial personal profit.

How Can I Tell if Fraud, Waste, and Abuse are Occurring?

You can tell if fraud, waste, and abuse are occurring by looking for "fraud indicators."
Fraud indicators are clues that may warrant further review of a specific area or activity.

Some of the indicators of fraud include:

- No separation of duties.
- Lack of internal controls.
- High turnover of personnel.
- Unexplained entries or altered records.
- Unusually large amounts of payments for cash.
- Inadequate or missing documentation.
- Non-serial number transactions.
- Unauthorized transactions.

Common Fraud Schemes... What to Look for From Your Suppliers, Vendors, Contractors, or Subcontractors
Prohibited Practices before **the Award of a Contract or Grant**
Bribery, Gratuities, and Kickbacks

Giving or receiving a thing of value for the purpose of influencing an official act or an award:

- Acceptance of inappropriate, high-value gifts or services from suppliers, contractors, or awardees.
- Overly friendly interaction between government employee and contractor or awardee.
- Sudden unexplained increase in wealth.

Conflict of Interest and Ethics Violations

Government personnel using their official duties to garner personal or financial gain.

- Acceptance of gifts from a vendor or contractor.
- Government personnel providing proprietary information to one, or a few competitors.
- Government personnel negotiating for employment with a company that they have an official interest in or with.

Unbalanced Bidding

Contracting personnel providing a favored bidder with information in the bid process.

- Particular line item bids appear to be unreasonably low.
- Change orders issued soon after contract award deleting or modifying line items.
- Bidder is close to a government procurement official, or directly participated in drafting the contract specifications.

Prohibited Practices after **the** Award **of a Contract or Grant**
Defective Pricing

Contractor's failure to disclose all facts that affect its cost for pricing products or services.

- Not disclosing significant cost issues that will reduce contractor's proposed costs.
- Indications of falsification or alteration of supporting data.
- Denial of the existence of historical records.

Cost Mischarging

Improper allocation of costs to a cost contract or charging at higher than allowed rates.

- Labor time and charges inconsistent with project progress.
- Time cards completed by management and not individual employees.
- Inability to produce time cards immediately when requested.
- Lower level work being done by high level wage earners.

Product Substitution

Contractors deliver goods which do not conform to contract requirements without making proper notifications.

- Using one coat of paint instead of two, or using watered loads of concrete.

False Statements and False Claims

Knowingly and willfully falsifying or concealing a material fact, knowing the same contains any materially false statement or entry.

- Discrepancies between reported facts and supporting documentation.
- Inability or refusal to provide supporting documentation.
- Site inspection reveals less progress on the site than reported

Standards of Conduct Violation

All employees are expected to adhere to certain standards of conduct which, if violated, could adversely reflect on their work. Such prohibited conduct includes, but is not limited to:

- Official or moral misconduct (on or off duty).
- Soliciting or accepting gifts from outside sources.
- Abuse of authority or position.
- Misuse of government time, equipment, IT resources, and information.

Computer Crimes

Computer fraud includes anyone who knowingly accesses a computer without authorization; exceeds authorized access; obtains information from any department or agency of the US Government to further an intended fraud; or to access prohibited sites.

From the above discussion, it is not difficult to imagine how mismanagement in the form of waste can constitute an implicit invitation to abuse and to fraud, by companies doing business with the government as well as by public servants.

Principles of Fraud Control

Fraud arises from the conjunction of three factors. A potential perpetrator must have the motivation to defraud, the knowledge, skills, or ability to commit fraud, and the situational opportunity to do so.
It should be noted at the outset that there is no single panacea for the problem of fraud, waste and abuse. Whilst the discussion which follows suggests that improved management at all levels of the public sector is likely to be the one most important safeguard, effective prevention of fraud, waste and abuse will require a variety of overlapping checks - what might be termed an interlocking web of countermeasures.

Three basic considerations bear upon a discussion of fraud control and the public sector. First, it is of utmost importance to avoid measures which would reduce the morale of the workforce. For obvious reasons, poor morale itself increases vulnerability to fraud, by perpetrators both internal and external.

Second and with explicit reference to the procurement of resources, it is important to maintain managerial flexibility and autonomy. Wherever possible, those involved in the procurement process or in the management of resources should be able to exercise discretion, rather than be bound to a rulebook. In other words, let managers manage. Overly strict regulations can inhibit efficient allocation of resources. Irrelevant or gratuitous specifications can drastically inflate the price of products purchased.

Third, it is essential to maintain accountability for the management of public resources. Enhancing and protecting managerial discretion does not preclude managers being subject to oversight. A necessary corollary is that managers should be accountable for the decisions which they do make and for the resources which they manage.
Large, complex organisations such as one finds in the public sector may be conducive to "passing the buck" by personnel at all levels. The transient involvement of numerous individuals in a given project may make it difficult to fix responsibility on a particular person in the event that something goes wrong. Clearly defined accountability is thus essential.

To summarise, any fraud control measure which would have the effect of lowering morale or constraining managerial discretion must have a very compelling justification. Accountability for the management of resources must be strengthened and given high priority.

Countermeasures

The discussion which follows addresses four basic stages at which measures for the control of fraud waste and abuse may be implemented. These might briefly be described as prevention, detection, investigation, and sanctioning. The four are necessarily interrelated.

The primary defence against fraud should be **prevention**. Systems and policies should be in place to minimise motivation and opportunities to engage in fraud. One can, for example, identify areas of vulnerability to fraud, and mandate the processes by which resources are acquired and managed. Beyond this, one can provide positive incentives - material or symbolic rewards for efficiency and effectiveness in the procurement and management of resources.

In the real world however, some fraud will occur. Systems for the effective **detection** of fraud are thus essential. Regular internal auditing, reinforced by rigorous external audits. are one such means of detection. Formal procedures for the reporting of fraud are also important.

Procedures for the **investigation** of fraud serve two basic functions. First of these is the preparation of evidence for subsequent use in the sanctioning process. The second goal of investigation is essentially remedial. By determining "what went wrong", by identifying shortcomings in prevention and control systems, it may be possible to strengthen preventive measures and thereby reduce subsequent vulnerability to fraud.

Imposing **sanctions** on individuals or organisations which have perpetrated fraud may entail criminal, civil, or administrative penalties, whether singly or in combination. Sanctions serve four goals. The first of these is deterrence. Perpetrators of fraud should be discouraged from re-offending, and others should be deterred from following in their footsteps. The second is restitution. The government should be reimbursed for any losses sustained as a result of fraud. The third is rehabilitation. Operating procedures and control systems of a company responsible for defrauding the government can be restructured to minimise the likelihood of recidivism. The fourth is denunciation. The act or acts of fraud are subject to formal condemnation, which has as its goal education as well as denunciation.

Prevention

Fraud awareness

It is obviously essential that public servants and government contractors know which behaviours are tolerable and which are not. There may be practices, currently regarded as acceptable throughout the public sector, which authorities will wish formally to define as wasteful or abusive. To this end, agencies must make a very clear distinction between acceptable fringe benefits and minor theft. This distinction must be communicated clearly and unambiguously to all personnel.

A fraud awareness campaign should not, however, be regarded as a magic bullet, or as **The** solution to fraud, but as one which complements other countermeasures. Moreover, it should be reinforced by word and by deed from the highest levels. A campaign perceived as simple window dressing or a public relations exercise may itself be categorised as waste, if not fraud.

The precise themes upon which a fraud awareness campaign might be based may vary, depending upon the organisational culture of a given public sector agency. Altruistic or patriotic appeals might be more appropriate for some individuals, whereas messages aimed at an individual's self interest may be more effective in other cases. In general, perceptions of formal or informal sanctions, whilst significant, have been found to be less important than internalised norms in explaining the decision to engage in illegal behaviour. It would in any event be useful to determine what sanctions are perceived as credibly threatening by potential perpetrators of fraud and waste.

A campaign could be based on one or more of the following change strategies:

1. Rational/empirical appeals based on the principle that fraud control is in the best interest of all personnel.
2. Power/coercive approaches invoking formal authority to force the acceptance of change.
3. Normative/re-educative approaches involving widespread participation in setting goals and in monitoring achievement.

The ultimate success of any awareness campaign is directly related to management techniques of motivation and leadership. In theory, this should pose no problem for public sector managers. Leadership is, after all, an integral element of the managerial role. Leadership style not only determines how well information is disseminated and absorbed by personnel; it also establishes the overall tone of the organisational environment.

Stated simply, thefts are less likely to occur when the rank and file feel that management cares about losses. Ethics and integrity programs should be made a key component of staff development in public sector agencies. Managers must be leaders, and must set a personal example of high integrity.

Fraud awareness should become an integral part of training for public service officers. Policies for the control of fraud, waste and abuse should be clearly communicated throughout the public sector, and to individuals and organisations in the private sector which are engaged in doing business with the government.

It is essential that any fraud awareness initiatives be reinforced by action. Public sector agencies must demonstrate their commitment to fraud control by deed as well as by word. Policies should be consistently and visibly applied.

Considerations relating to procurement

Governments, as purchasers of goods and services, are in a position to influence commercial morality through constructive use of purchasing power.

Although competitive bidding for government contracts is regarded as the most economical means of procurement and as a safeguard against corruption, the ideal of open competition is not always achieved. The risk of collusive tendering, or other anti-competition practices, requires vigilance on the part of purchasing officers.

Tenders should be compared for "identical computations and totals which are unlikely to be coincidental". Other circumstances which may warrant suspicion include changes in bidding practices on the part of traditional suppliers, and changes in patterns of bidding by groups of tenderers. Collusive tendering activity is a violation of the *Trade Practices Act.*

Even when honest, competitive bidding is achieved, it may take place in such circumstances as to entail significant unnecessary costs and other undesirable outcomes. For example the regulations which constrain procurement decisions may not permit consideration of contractor past performance or anticipated product reliability.

The acquisition of resources by public sector agencies should be based on demonstrated need. Not only is the acquisition of unnecessary or superfluous materials wasteful per se, it sends the wrong message to public servants and to outside contractors.

Ideally, procurement should take the form of purchase on the open market, based upon competitive purchasing and contracting methods. This does not necessarily imply that the award of a contract should always go to the lowest bidder. There are circumstances, discussed below, where contractors should be rewarded for exceptional compliance on previous contracts. In addition, procurement managers should enjoy sufficient discretion to trade off cost, schedule, performance, and service/warranty considerations.

Where possible, procurement officials should seek products which are commercially available "off the shelf" rather than those which require custom manufacture. Where "off the shelf" products are inadequate or unavailable, specifications for the desired commodity should be drafted with great care. Insufficient specification may lead to the acquisition of an inferior product. By contrast, over specification can lead to excessive cost. Guidelines on specification writing should be available to procurement officials.

In general, simplicity is a virtue. Wherever possible, procurement officials should opt for the basics, and avoid complicated accessories. Elaborate frills, or design add-ons, referred to by some as "gold-plating", can significantly add to the cost of a purchase and may enhance the risk of malfunction at some future stage. Decisions to favour capability at the expense of economy, reliability and ease of operation and maintenance should be made with the greatest caution. The attractions of "state of the art" technology should be weighed carefully against the downside risks of runaway cost and possible malfunction.
It has been suggested that split sourcing of contracts is a useful means of promoting competition and of ensuring that prices of a product or component do not significantly increase after it goes into production. With split sourcing, the government awards up to 80 per cent of the contract to the tenderer with the lowest bid. The tenderer with the next lowest bid is awarded the remainder of the contract. This can enhance future competition by assisting the commercial viability of two producers.
Defective or unreliable equipment can pose significant risks to human life as well as to other public sector resources. Safeguards against the acquisition of defective products, whether intentionally or negligently supplied, might include the requirement that the product undergo independent testing and certification, and that the product be subject to warranty. Products which fail to function as promised by their supplier should be returnable for a refund. Any waiver from warranty requirements should require ministerial authorisation.
In some cases, it might be appropriate to require that a contractor post a bond, refundable upon satisfactory delivery of goods or completion of a project. Needless to say, the imposition of such requirements upon contractors should not be undertaken gratuitously. The burdens which they impose might discourage some potential contractors from pursuing government business altogether, thereby reducing competition. But it might be argued that commercial interests which stand to profit from government contracts may be expected to tolerate some inconvenience as part of the price of doing business.

Value engineering

Another method of cost control is that of value engineering, the systematic scrutiny of a project in its design stage for alternative project components, materials or methods which would perform the intended functions at less cost. The analysis is performed by an independent team, whose members' qualifications depend upon the nature of the project or product under scrutiny. Ideally suited to large scale construction projects or to the procurement of major capital equipment, value engineering can save 5 to 10 per cent of total project costs. Over the course of a large scale project, such savings can amount to more than a tenfold return on one's original investment in value engineering services.

Management Information Systems

Efficient management of government's resources requires some means of monitoring resource acquisition, inventory and use. Whilst this might appear obvious to the point of banality, it would seem that existing management information systems within many public sectors may not permit the degree of internal oversight necessary for the effective control of fraud, waste and abuse. At each level within the organisation, managers should be able to compare patterns of resource acquisition and use by subordinate units. The very existence of such oversight is likely to induce managers of those subordinate units to manage their resources more carefully. Observed anomalies will provide senior managers with early warning indicators of fraud or waste.

Public Vigilance: Visibility of Transactions

The principle that sunlight is the best disinfectant is applicable to much public sector activity. The more visible the transaction, the less vulnerable it is to fraud and corruption. Whilst it can be argued that matters of individual privacy, trade secrecy, and national security might militate against public access to many transactions involving public sector agencies, democratic principles imply that activity conducted on behalf of the public should be visible to that public. For example, regulations require the gazettal of Commonwealth government purchases. Beyond this, aggressive investigative journalists and citizen "watchdog" groups have an important role to play in enhancing the visibility of public sector activity.

Preventing Fraud by Government Contractors: Conditions of Eligibility to Enter into Contracts with Government Agencies

Whilst it is desirable to maximise competition amongst prospective government contractors, fraud prevention considerations might militate in favour of certain conditions of eligibility to enter into contracts with the government. These could entail the imposition of disclosure requirements upon or the assumption of self-regulatory responsibilities by prospective contractors. The virtue of such measures is that they shift some of the costs of oversight from the government to the contractor, at the same time as communicating the government's concern for fraud prevention.

The development of corporate culture resistant to fraudulent practices is easier to advocate than to achieve. Many will pay lip-service to corporate ethics, while continuing to place primary value on increased profit at any cost. Thus, self-regulatory initiatives must often be supplemented by other measures. Companies could be obliged, as a condition of eligibility to do business with the government, to demonstrate that they are in compliance with one or more stringent requirements. These might include:

1. The disclosure of any previous regulatory violations or criminal offences with which the company or any of its directors may have been charged;
2. The implementation of a corporate ethics program, including the promulgation of clear standards of employee conduct, the establishment of staff ethics training programs, company hotlines, and voluntary disclosure policies; and

3. The implementation of appropriate systems of internal control and compliance monitoring.

Prequalification of contractors can be reinforced by additional controls. Contractors can be required to post performance bonds, which might be subject to forfeiture in the event of non-compliance. These are discussed below, under sanctions.

Information clearinghouse on corporate compliance

Intelligence can be of considerable utility in assessing one's vulnerability to fraud. Agencies throughout the public sector might well benefit from access to information which reflects the past performance of potential contractors, not only with their own projects, but also with regard to their performance on contracts with other government agencies.

To this end, some consideration might be given to the establishment of a database or clearinghouse for information on the compliance histories of companies doing business with all agencies of government. It would be useful to have ready access to information regarding the nature, dates, and amounts of previous government contracts performed by a tenderer, and whether the work was satisfactory.

Such a database could include information on other aspects of regulatory compliance as well. The data base could be expanded to include information on the principals and directors of a company, including data on whether they had been the targets of any previous investigations or prosecutions, or whether they had any record of convictions. Adverse information need not imply automatic disqualification from doing business with the government, but rather that the company's activity in the event of a successful tender be subject to stricter scrutiny.

Such information exchange raises obvious questions of privacy, and would almost certainly require the consent of companies concerned. Such consent could easily be made a condition of doing business with the government.

Positive incentives

Where possible, public sector agencies should rely on positive incentives for fraud control. These might include rewards for exemplary performance by contractors, and symbolic or material recognition for individuals or units with outstanding records in efficient resource management. Whilst this does not preclude the use of severe negative sanctions where situations may warrant, it is submitted that positive incentives have the potential for greater efficiency and effectiveness in the control of fraud and waste. Ultimately, an effective fraud control regime will contain an optimal balance of positive and negative sanctions.

Incentives for exemplary compliance: contractor incentive programs Without drastically altering current acquisition procedures, it should be possible to provide contractors and vendors with incentives for exemplary performance. Commonwealth Government departments are now able to use past performance as a criterion in tender evaluation. A more formal system of weighted tendering is currently employed by the Government of Singapore. The system provides tenderers with a weighting factor based on their performance on previous government contracts. Those tenderers whose previous work was completed on time, within budget, according to appropriate quality standards, and who have met subsequent warranty or service requirements, are entitled to have their tender considered as if it were less than the actual amount bid. Should the discounted tender be successful, the contractor is reimbursed at the level of the actual bid.

Personnel Incentive Programs

Positive incentives may be extended to public service personnel as well. One initiative which could fulfil this role is a program of symbolic and/or material incentives for contributions to the reduction of fraud, waste and abuse. This need not entail informing on or "dobbing-in" offenders; indeed, the program could be structured positively to invite beneficial suggestions. Cash rewards and commendations can be offered to personnel in every division or unit for useful ideas. A "grand prize" could be offered annually to that individual or unit within an agency who has produced the most constructive suggestion. Exemplary performance in the efficient management of resources can be made an explicit criterion for promotion.

Organisational Incentive Programs

The allocation of resources within a public sector agency can be structured to provide for rewards to organisations which succeed in controlling fraud, waste and abuse. A certain percentage of identified cost savings or recoveries can be earmarked for the organisation responsible for achieving them. Specific organisational commendations can also be awarded.

Detection Audits

Good security practices are integral to good management. The first line of defence against fraud, waste and abuse, whether by public employees or by external contractors, is the audit. An agency's internal auditing capabilities should be strong, and they should be visible. As such, they contribute to fraud prevention as well as detection. The advent of "electronic trading" entails particular fraud risks requiring commensurate audit capabilities. Accurate physical inventories of government property should be carried out on a regular basis. In order to evaluate the effectiveness of internal controls, surprise audits and inspections should be carried out as a matter of policy. Through creative management, random, unannounced audits can be made a fact of life, less likely to be regarded as intrusions or as violations of autonomy, and thus not detrimental to morale.

The attention of managers throughout the public sector could be focussed on fraud awareness and prevention by a requirement that chief executive officers submit annual signed statements attesting to the effectiveness of internal controls. Auditing and inspectorial oversight should be extended to contractors as well. Contractors' internal auditors should themselves be vigilant to ensure that unallowable costs are not charged to the government. Internal control systems should be subject to testing by the occasional use of "ghosts" on the payroll, dummy invoices, and other simulated false claims.

Government oversight of contractor compliance is an important backup for contractors' internal audit capability. In addition to the self-regulatory initiatives noted above, contractors' premises and records should be subject to periodic inspection without prior notification. Unlimited access to contractor facilities and records by public officials should simply be made a provision of the contract. Beyond ensuring the accuracy of contractors' control systems, and the efficacy of these systems in the prevention of intentional or inadvertent overcharging, government auditors should be empowered to review the overall efficiency of contractor operations. Among the areas on which contract auditors might usefully focus are labour and overhead billing procedures, and spare parts pricing, traditionally vulnerable to illicit exploitation by contractors.

Audits, both internal and external, are necessary but not sufficient for the detection of fraud, waste and abuse. Undesirable conditions or activity which escape the attention of auditors may be subject to discovery by other means. In addition to the beneficial suggestion programs noted above, avenues for the disclosure of fraudulent or wasteful activities should also be established. Initially, the existing chain of command should be given the opportunity to function effectively. It is important to ensure the efficacy of line reporting, by creating the obligation to report anomalous circumstances to one's superior. Those circumstances which constitute grounds for reporting should be clearly specified. This obligation to report "upwards" will be accompanied by creating the obligation on the part of everyone in the line to report the follow-up action which has been taken in response to the initial report.

Compliance monitoring need not be the unique province of government inspectors, or of industry self-regulation. Just as the financial statements of companies are subject to audit by independent professional accountants, so too can contract compliance be subject to audit by an independent agent envisages a role for independent accredited companies, or "certified investigative auditing firms" (CIAFs), to verify contract compliance on large projects, particularly large public works projects. CIAFs would themselves be licensed by governmental authority; the cost of their services (somewhere in the vicinity of 2 per cent of the overall contract amount) would be incorporated in the contract. Such "private inspectorates" would relieve some of the pressure on limited government resources. Public sector officers would assume the role of "super-inspectors", overseeing the operation of private compliance auditors.

Whistle-blowing and hotlines

The investigative resources of governments are not unlimited. Nor, therefore, is the capacity of government authorities to detect or to investigate fraud against the government. Given these finite capabilities, it seems appropriate that the energies of the general public and of public servants generally be usefully enlisted to reduce fraud, waste and abuse.

Whistle-blowing

Fraud, waste and abuse are primarily low visibility incidents. Many defy detection through audits; only occasionally do they involve self-reporting. Improved detection of fraud thus requires the assistance of personnel who become aware of an incident and are willing to disclose it.

Whistle-blowing should not be portrayed or perceived as the first and only response to an incident of fraud, waste or abuse. Opportunities for the lodging of beneficial suggestions were noted above.

Ideally, there should be internal channels through which concerns might be articulated. Using the chain of command may be inappropriate in the more serious cases of fraud, however.

Disincentives to whistle-blowing are formidable. They can include ostracism by one's neighbours or peers, and harassment or victimisation by one's employer, or one's organisational superiors. The psychological pressures which flow from such conflicts may be intense, and may entail lasting injury. For this reason, mechanisms for protecting legitimate whistleblowers are essential. These would normally entail provisions for employment protection and legal assistance, where required. In circumstances where the legitimate whistleblower sees him or herself as unable to continue within the organisation, assistance with job placement may be appropriate.

In extreme cases, support to the extent of that provided by the Federal Government to protected witnesses might be required. On the other hand, safeguards against frivolous or vexatious activity under the guise of whistle-blowing should exist. Formal mechanisms for the identification and penalisation of false complaints are integral to any proper whistleblower projection program.

Hotlines

Organisations whose managers wish to have fraud reported must make it easier for employees to do so. One obvious vehicle is the hotline. This exists to receive confidential disclosure of irregularities via telephone, and may be available on a 24 hour basis, during normal business hours, or periodically, as is the case with **TIPOFFS ANYNOMOUS operation** by Deloitte and **NDAKUONA of Malawi Police** agencies. Hotline complaints are screened, and those with apparent foundation are selected for further investigation.
The manner in which hotlines are established and publicised can affect their utility. The very existence of a hotline can be a reminder to personnel that there is an organisational commitment to fraud control. On the other hand, hotlines are vulnerable to abuse by frivolous or vexatious complainants. In addition, as a means of fraud detection, they may be lacking in both efficiency and effectiveness. Many complaints may be trivial, if not groundless; significant cases of fraud, waste and abuse tend to come to official attention by other means. Hotlines may thus be an inefficient means of detecting fraud. Their very existence, however, may serve an important educative and deterrent function.

False Claims Litigation

In fourteenth century England, there emerged a means of private redress to supplement what were at the time modest efforts at public law enforcement (Fisse & Braithwaite 1983, pp.251-54). The term employed for these causes of action was *qui tam* (Latin for "who as well"; that is, who sues for the state as well as for him or herself).
Qui tam litigation fell into disuse in the English-speaking world, to be revived during the United States Civil War, and more recently, to combat the U.S. defence procurement scandals of the 1980s (Kamuchey 1989).

The legislation is noteworthy in two respects. First, it is a civil and not a criminal statute, intended to be remedial rather than punitive. (It should be noted that the current provision for treble damage awards may have a punitive effect.) The standard of proof required is civil, on the balance of probabilities, rather than the more formidable criminal standard of proof beyond reasonable doubt.

Second, the statute authorises private citizens to sue on behalf of the government, and to share in any recovery of defrauded funds eventually recovered by the government. The government may join the case, in effect taking it over, and the citizen plaintiff may still share in the recovery of funds. The Act contains safeguards against frivolous or vexatious litigation, and provides for criminal prosecution to take precedence over civil action where the government deems it appropriate.

Our laws must incorporate the following:

1. Allowance for a private citizen who discovers fraud against the government to sue for damages.
2. Provision for an award of triple the damages sustained by the government.
3. Provision for a maximum civil fine of Mk................
4. Guarantees that the private citizen who initiates the suit receives a proportion of the damage award - between 15 per cent and 25 per cent if the government enters the case; if the government does not enter the suit, the successful private plaintiff can receive between 25 per cent and 30 per cent of damages. (Awards are at the discretion of the presiding judge, based on his or her assessment of the citizen's contribution to the litigation).
5. A requirement that the defendant pay the legal expenses of a successful private plaintiff.
6. Protection for private plaintiffs from harassment, dismissal, demotion or suspension by their employer.

Voluntary disclosure by contractors

In the United States, defence contractors who discover violations through internal audit or other means are encouraged to disclose them to appropriate authorities, and to voluntarily return unlawful proceeds to the government (Brown 1989). Whilst such disclosure need not preclude subsequent prosecution or civil action, it is indicative of good faith and of some ethical sensitivity on the part of the contractor, and may be considered in mitigation of those sanctions which are eventually imposed. It is obviously less applicable to the more unscrupulous cases. It should also be noted that wayward contractors tend not to avail themselves of voluntary disclosure opportunities unless independent detection of their illegality is imminent.

Investigation

In relatively large organisations with significant personnel turnover, it may be difficult to sustain an institutional memory. This becomes even more important with regard to fraud, the investigation of which entails cooperation with or dependence upon external agencies.

Preserving agency autonomy is generally a high priority of public sector managers. With a view towards maintaining an image that one's organisation is in complete control of its resources and operations, and thus invulnerable to fraud, it may be tempting to ignore indicia of illegality, and to refrain from contacting or cooperating with outside investigators. Such an orientation enhances the risk that an underlying pathology might not be rectified, and that an even larger scandal may eventuate. Clear guidelines relating to the mobilisation of outside investigative assistance should exist to assist managers throughout the agency who will bear continuing responsibilities for fraud prevention and control. Effective relationships between public sector agencies and law enforcement bodies may be assisted by the development of formal agreements which detail the relative roles and responsibilities of law enforcement and client agencies.

At a certain point in the course of an investigation, a decision must be made regarding the choice of remedies to be pursued. In some cases, circumstances will be such that criminal prosecution will be the most appropriate course. In others, lack of sufficient evidence to frame criminal charges, or other considerations, may militate in favour of civil or administrative remedies. There may well be some circumstances in which a combination of remedies will be sought. The choice of remedy itself has implications for the allocation of investigative resources; such decisions should not occur on an ad hoc basis, but rather reflect clear policy.
It may be perceived as useful to develop an ongoing program to monitor cases of suspected fraud coming to departmental attention. From this it would be possible to assess such important matters as the effectiveness of control systems and the relative productivity of various detection strategies. If, for example, cases coming to official attention as the result of external audit are more likely to result in successful resolution, this might imply the desirability of greater investment in this particular countermeasure. The implications for achieving greater cost effectiveness in fraud control should be obvious. At the very least, periodic self-assessment and review by an outside agency can be instructive (**Great Britain 1991; United States 1988**).

Sanctioning

Given the diverse manifestations of fraud in the public sector, authorities should have available a range of sanctions, so as best to achieve the varied ends of deterrence, rehabilitation, restitution, and denunciation.

Mandatory prison sentences

Some types of public sector fraud are so serious that they might merit imprisonment. Among the more heinous forms of fraud is product substitution, or intentional failure to conduct quality testing, where the act or omission in question creates a substantial risk of death or serious injury.

Administrative remedies

Misconduct short of criminal activity or cases where evidence may be insufficient to sustain criminal charges may still permit the mobilisation of negative sanctions. The civil remedies incorporated in false claims litigation were noted above, as was the revocation of performance bonds in the event of contract non-compliance.

Contract Cancellation

Other administrative remedies might include, inter alia, the cancellation of a contract, or the debarment of a contractor from doing business with the government for an indefinite or a specified period. Specific individuals implicated in improper or illegal activity could be targeted as well, for example, by revoking security clearances.
Contracts might include a termination clause permitting the government to unilaterally terminate the contract in the event of contractor noncompliance.

Debarment

In some instances unacceptable performance by a contractor might merit suspension or debarment; that is the individual or company may be prohibited from doing business with the agency in question, or with any government body, permanently or for a specified time. The threat of removal from the list of companies eligible to do business with the government has considerable deterrent potential, particularly against those companies which depend on government business for a significant portion of their earnings.

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End of Chapter Summary

The chapter focused on Value for money as it has become more prominent in the achievement of accountability in the public sector
You learned that the Value for money (VFM) concept is about striking the best balance between the "three E's" − economy, efficiency and effectiveness It is not a tool or a method, but a way of thinking about using resources well.

You also learned the definitions of the 3Es and explored the practical application through the procurement activities of DFID.
You also learned of how avoidance of waste can improve value for money in the public sector to promote accountability. The term wastage of resources has a wider scope and includes the terms fraud, waste and abuse since are used interchangeably. The value of public resources lost each year in Malawi because of fraud, waste and abuse defies precise quantification, but almost certainly runs to many billions of Kwacha.

Fraud is understood to mean a dishonest and deliberate course of action which results in the obtaining of money, property or an advantage to which the recipient would not normally be entitled. This would include, inter alia, theft of government property, or the submission of artificially inflated invoices by a contractor.
Waste entails the expenditure or allocation of resources significantly in excess of need. An example would be the negligent or reckless requisition of three times as much perishable produce as required. Waste need not necessarily involve an element of private use or of personal gain, but invariably signifies poor management.

Abuse, defined here as a subset of waste, entails the exploitation of "loopholes" to the limits of the law, primarily for personal advantage. One, abuses a system of travel allowances by intentionally and unnecessarily scheduling meetings in another city on a Friday afternoon and on the following Monday morning in order to claim per diem over a weekend. Another example would occur where a person, transferred to an overseas diplomatic posting, uses the diplomatic position to export a luxury vehicle for personal use at the posting and subsequently, prior to returning to Malawi, sells the vehicle for a substantial personal profit.

Sample Questions

1. Describe the concept of 3Es as they relate to value for money

2. Briefly explain how value for money can be achieved through:

   - Audit

   - Procurement

3. Discuss how the avoidance of waste can promote value for money in public sector

Chapter 16

PUBLIC PRIVATE PARTNERSHIPS

16.1 Introduction

The government of Malawi recognised and publicly acknowledged that there was need to explore more private sector involvement in the delivery of services and infrastructure in the country. Malawi's economic growth and development strategy (MGDS) support the theme of strengthening the cooperation between the private and public sectors in order to improve the macroeconomic environment for business growth.

The Government is committed to promoting infrastructure investment in the country as one way of stimulating economic growth, hence improving the quality of life through poverty reduction. In this regard, the public private partnership (PPP) framework is used as a form of procuring and financing infrastructure projects and services. The government came up with a PPP policy which was approved by cabinet on 18 May 2011. This document sets out the policy framework for initiating, designing and implementation of PPP's in Malawi.

16. 2 Learning Objectives

At the end of this chapter, students will be able to:

a) Define a public private partnership
b) Explain how Public Private Partnerships came into being.
c) Explain various types of public private partnership arrangements in Malawi
d) Explain financial arrangements that exist and have so far been utilised for public private partnerships.
e) Explain the impact of public private partnerships on the economy.
f) Describe advantages and disadvantages of public private partnerships.
g) Explain accounting for public private partnerships as per IPSAS 13 and 32.

16.3 What Is a Public Private Partnership

A public private partnership is a legally enforceable contract in which a contracting authority partners with a private sector partner to build, improve or develop infrastructure or service in which the contracting authority and the private partner contribute one or more of know-how, financial support, facilities, logistics support, operational management, investment or any other input required for the successful deployment of a product or service, and for which the contracting authority and the private sector partner are compensated in accordance with a pre-agreed plan. The compensation is designed in such a way that it relates to the risk assumed and the value of the result expected to be achieved. The usual form is that the private entity performs infrastructure service delivery functions that would otherwise have been provided through the traditional public sector procurement and assumes the associated risks through a long term contract.

A Public Private Partnership entails the private party taking substantial risk for:

- Financing a projects capital and operating costs.
- Designing and building a facility.
- Managing its operations to agreed standards over an agreed period of time.

In a PPP arrangement, the land normally belongs to the public institution and not to the private party, and the fixed assets so developed are thus state property.

In Malawi, the implementation agency of PPP's is the Public Private Partnership Commission (PPPC) formally known as Privatisation Commission. The PPPC is responsible for developing guidelines on best practices to assist sector ministries in the implementation of their PPP projects. The PPPC works closely with the ministry of finance in the review and assessment of PPP project affordability, value for money, feasibility and contingent liabilities associated with the PPP projects.

The PPPC provides advice and support to contracting authorities in the following areas:

- Project identification
- Feasibility studies
- Procurement process
- Contract management / renegotiation
- Liaising with PPP monitoring and review unit at ministry of finance
- Promotion and capacity building
- Liaising to obtain financial support

16. 4 Types of Public Private Partnership Arrangements

There are many types of public private partnerships. The distinction is mainly based on the type of agreement, the sector in which the project is and / or a combination of the two. In addition, the type of financing also does differentiate one Public Private Partnership from the other.

Agreement

There are many forms of agreements that will distinguish one PPP from the other. Most common PPPs that are distinguished by agreement include the following:

- Utility restructuring corporations.
- Civil works and service contracts.
- Management / operation and maintenance contracts
- Lease contracts
- Concessions, BOTs and DBOs
- Joint Ventures
- Full divesture / privatisation

- Contract plans and performance contracts

Industry or sector

- Energy and power
- Telecommunications and ICT
- Transport
- Water and sanitation
- Agriculture

PPPs are designed so as to allow each party to concentrate on activities that best suit their skills and strategic objectives. For the public sector this means planning and identifying infrastructure and public service needs, focusing on developing national, local and sector specific policies and overseeing the enforcement of the entire PPP agenda. The public sector retains a significant role in the PPP project either as the main purchaser of the services provided or as the main enabler of the project.

For the private party the key is to deliver effectively the infrastructure and facilities required by the public sector and consumers. Risks are identified and placed with the party best able to bear and manage them at lowest cost.

A particular arrangement may be referred to as a PPP where the following key characteristics are present:

- Shared responsibility for the provision of infrastructure or services with a significant level of risk being taken by the private party.
- Long term commitment by the public sector to the provision of quality public services to consumers through a contractual arrangement between the public sector and a private operator.
- Better value for money and optimal allocation of risk over the period of the project's life cycle.

In the PPP policy, the government identifies nine areas as priority areas where formulation of PPPs should start. In some of these areas, studies have been conducted and project papers are in place. The following are the areas identified:

- Agriculture and food security
- Energy, Industrial development, Mining and tourism.
- Transport infrastructure and inland ports
- Education science and technology
- Public health, sanitation, malaria and HIV and AIDS management
- Integrated rural development
- Greenbelt irrigation and water development
- Child development, youth development and empowerment
- Climate change, natural resources and environmental management

16.5 Financing Arrangements for Public Private Partnerships

A Public Private Partnership project will involve financing from various sources, in some a combination of equity and debt. The ratios of these different contributions will depend on negotiations between the lenders and the shareholders. The following are the main sources financing a Public Private Partnership;

Equity contributions

Project sponsors are the investors in the project company and are likely to be providing expertise and some of the services to the project company. Sponsor funding is generated through share capital and other shareholder funds. Equity contributions bear the highest risk and they therefore potentially receive the highest returns. Equity contributors in project financed transactions may include the following:

- The project participants
- Local investors
- The host government
- The grantor
- Other interested governments
- Institutional investors
- Bilateral or multilateral organisations

Debt contributions

Debt can be obtained from many sources. This includes commercial lenders, institutional investors, export credit agencies, bilateral or multilateral organisations, bondholders and at times the host country government. Debt contributions have the highest priority among the invested funds. Repayment of debt is generally tied to a fixed or floating rate of interest and a program of periodic payments.

The source of debt has an important influence on the nature of the debt provided. Where multilateral organisations and export credit agencies are among the lenders, the debt package may benefit from certain insulation from political risk and preferential treatment by the host government in relation to repayment. Commercial banks are desirable as long term debt providers due to their flexibility in negotiating loans and reacting to any new and unforeseen conditions. Another source of project debt is equipment suppliers. Suppliers will provide financing in order to sell their equipment, and may provide more aggressive terms.

Finance lessors pay for assets and lease them back to the project company. Whether or not the lessor is the equipment supplier, it can provide competitively priced financing. Leasing can provide additional benefits in the financing of infrastructure projects. These could be in the form of earlier tax allowances, new sources of finance, and improved security interests where asset ownership is retained offshore in a more security friendly jurisdiction. However, leasing adds complexity to an already complex structure, adding another creditor's interests and influence over project assets.

Syndication is another form of project debt. In syndicated lending, each amount advanced by one of the syndicated banks constitutes a separate loan with separate obligations and rights. The banks will not underwrite each other's obligations and each bank will want to sue separately and make its own separate set off arrangements.

Islamic Banking financing is also another form of project debt. Large project finance transactions provide an opportunity to combine different forms of finance and due to size and complexity may require a diversity of sources of funding. This could include Islamic and conventional interest based financing.

Bank guarantees/ Letters of credit/ performance guarantees

Bank guarantee form an important part of project financing. This allows counter-parties immediate access to payment without the cost of locking up cash. Such guarantees may be on demand or only payable once the default is proven in court, adjudication or arbitration.
A bank issuing a guarantee, letter of credit or performance bond will fix the amount and obtain a counter indemnity from the customer secured against fixed or floating charge or cash deposits. The issuer will be entitled to convert the counter indemnity payments into loans or demand immediate payment.

Bond/ Capital markets financing

Bond financing allows the borrower to access debt directly from individuals and institutions rather than using the commercial lenders as intermediaries. The issuer (borrower) sells the bonds to the investors. A trustee holds rights and acts on behalf of the investors, stopping any one of the investors from declaring a default. Bond financing normally provides lower borrowing costs if the credit rating for the project is strong.

Bond financing provides a number of benefits to projects. These include lower interest rates, longer maturity (very helpful considering the duration of most of the projects) and more liquidity. However, financing through bond financing has the following disadvantages;

- Bond financing is drawn all at once, up front. Interest is therefore charged on the entire amount from day one (negative carry)
- The borrower will have to bear the “cost of carry”, being interest paid on the bond proceeds from the date of receipt to the date it is used to invest in capital expenditure
- Less flexibility during project implementation given the diversity of bondholders and the difficulty of getting approval for charges
- More time and cost due to more extensive disclosure processes and the rating process.

Bond financing has seen limited usage for initial project financing but is commonly used for refinancing, once construction risks have been largely mitigated.

Mezzanine/ subordinated contributions

Located somewhere between equity and debt, mezzanine contributions are accorded lower priority than senior debt but higher priority than equity. Examples

of mezzanine contributions are subordinated loans and preference shares. Use of mezzanine contributions allows the project company to maintain greater levels of debt to equity ratio.
Subordination involves a lender agreeing not to be paid until another lender to the same borrower has been paid, whether in relation to specific project revenues or in the event of insolvency. Subordination can be achieved either by contract or through corporate structuring.
Mezzanine financing for project financed transactions can be obtained from shareholders, commercial lenders, institutional investors and bilateral and multilateral organisations. Mezzanine contributors will be compensated for the added risk they take either by receiving higher interest rates than senior debt contributors and/or by receiving partial participation in the project profits or capital gains.

Inter-creditor agreement

An inter-creditor agreement will often be entered into by the lenders in order to address key issues between the different sources of financing. The following are some of the inter-creditor issues:

- Order of drawdown of funds
- Coordinating maturity of loans
- Order of allocation of debt service payments
- Subordination
- Holding and acting on security rights
- Management of draw downs, insurance funds and technical advisers
- Exercise of discretions
- Voting on decision
- Management of payments
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16.6 Advantages and Disadvantages of Public Private

Partnerships

Public Private Partnerships are becoming common because both public and private partners believe PPPs achieve shared goals more effectively than entities could by acting alone. The following are some of the advantages of PPPs.

Value for money

The most important advantage of a PPP is the creation of value for money. This means delivering a project with a superior quality for the same amount of money. The following are specific value for money drivers in a PPP:

- Risk transfer. The risk of the project is transferred to the party which is best able to manage it and at the least cost.
- Output based specification. Specifying the project result as outputs allows innovation to take place. Payments to the private sector in PPP projects are usually linked to how they perform, creating incentives and efficiency.

- Long term nature of contracts. This allows the service provider more time to recover the cost of investment enabling the supplier to reduce annual charges.
- Performance measurement and incentives. Linking performance to payment provides the service provider the vital incentive to deliver the required standards as defined in output specification.
- Private sector management skills. Private sector management skills allow the project to be delivered ahead or in time. By using PPP the government will have access to new skill that is available in the private sector.
- Competition. Generally, the benefits of introducing competition to an area which is normally dominated by public sector monopolies are: lower prices, greater innovation, increased investment and better service.

Cost efficiencies

Public Private Partnerships can lead to cost efficiencies as a result of increased competition, improved proportion of risk transfer, closer integration of different aspects of a project.

Time–to-delivery savings

Public Private Partnerships can also lead to time-to-delivery savings caused by a greater private incentive to generate revenue as soon as possible and the increasing experience with PPPs. The existence of a learning curve also leads to time-to-delivery savings. Thus, PPP projects can be delivered quicker that under the conventional procurement because of better project management, better management of project risks and because the service provider is not paid until the facility becomes operational.

Reduction on Public Treasury

Public Private Partnerships help reduce the capital demands on the public treasury for infrastructure development. Thus PPPs will give the government more freedom to spend on other non infrastructural investments in the short term.

Improved response to market forces

Private entities often have networks of customers, suppliers, supporters and employees that can broaden the reach of a development project beyond where the public sector could go.

Broad Support

Normally PPPs are broadly supported by donors and other development partners and by the private sector.

16.8 Disadvantages of a Public Private Partnership

The disadvantages of a Public Private Partnership can be identified as follows:

Poor value for money

The most important advantage of a PPP is the creation of value for money. However, value for money also consists of some disadvantages as follows:

- Higher transaction cost. PPPs represent opportunities to reduce project costs. However, tendering costs and development costs are usually much higher than under conventional procurement.
- Higher capital cost. PPPs may also result into higher capita; costs because of private borrowing. Sometimes the public entity could borrow more cheaply alone than it could via the private sector.
- Over-specification and miss-specification of the project result can cause output specifications to be deficient.
- Short term efficiency gains may be at the expense of a dynamic efficiency in the longer term.

Insecurity

Whenever two or more parties enter into a contract there is a risk that the administrative efforts on each side might be frustrated by lack of cooperation on the part of the other party. This may limit the number of bidders thereby reducing the competitiveness of the tender process.

Inefficiencies

Long term operating contracts can lead to value for money. However they can also lead to inefficiencies due to lack of contestability and competition. The developer who has signed the contracts will have the exclusive rights to an infrastructure facility, thereby practically enjoying a monopoly. During the operation phase inefficiencies may be created due to lack of competition.

Culture gap

There exists culture gap between the private and public actors which may result in a loss of confidence with each other. The private sector's motive to take part in PPPs is primarily profit making while the public sector's motive is in most cases social attractiveness.

Public sector staff concern

If a PPP is intended to replace an existing public facility, it may result into concern about the public sector staff terms and conditions of employment.

Long term

The long term nature of a PPP project means that debt is incurred long before the benefits appear.

16.9 ACCOUNTING FOR PUBLIC PRIVATE PARTNERSHIPS

Accounting for Public Private Partnerships will mainly depend on the nature of financing for a particular project. Also specific contents of the agreement will give guide as to how the accounting needs to be handled. In cases where the financing of a project involves a lease, the accounting for such a project or part thereof will be in accordance to IPSAS 13 – Leases. This standard applies to agreements that transfer the rights to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. This standard does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

In cases where the arrangement is that of a service concession, the grantor (public sector entity) is required to account the service concession in accordance with IPSAS 32, Service Concession Arrangements – Grantor. Among other provisions, IPSAS 32 requires that the grantor shall recognise an asset provided by the operator and an upgrade to an existing asset of the grantor as a service concession asset if:

- The grantor controls or regulates the services the operator must provide with the asset, to whom it must provide them and at what price.
- The grantor controls through ownership, beneficial entitlements or otherwise, any significant residual interest in the asset at the end of the term of the arrangement.
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Read IPSAS 13 and IPSAS 32 for full requirements regarding accounting for Public Private Partnerships.

End of Chapter Summary

The chapter focused on the recognition by the government of Malawi publicly, that there was need to explore more private sector involvement in the delivery of services and infrastructure in the country.

You learned that the Malawi's economic growth and development strategy (MGDS) support the theme of strengthening the cooperation between the private and public sectors in order to improve the macroeconomic environment for business growth.

You also learned that the public private partnership (PPP) framework is used as a form of procuring and financing infrastructure projects and services. The government came up with a PPP policy which was approved by cabinet on 18 May 2011. This document sets out the policy framework for initiating, designing and implementation of PPP's in Malawi.

Sample Questions

1. What is a Public Private Partnership?
2. State and explain the ways in which a Public Private Partnership project can be financed

List of Acronyms

PFMA	Public Finance Management Act
PAA	Public Audit Act
RBMA	Reserve Bank of Malawi Act
ACA	Anti-Corruption Act
MLA	Money Laundering Act
FIU	Financial Intelligence Unit
NA	National Assembly
PFMA	Public Finance Management Act
OPC	Office of the President and Cabinet
GP114	Government Printer Number 114
GP113	Government Printer Number 113
PAC	Public Accounts Committee
MPSR	Malawi Public Service Regulations
ODPP	Office of the Director of Public Procurement
IPC	Internal Procurement Committee
IFMIS	Integrated Financial Management Information System
GP 27	Government Printer Number 27
NICO	National Insurance Company
DHRMD	Department of Human Resource Management and Development
MDA	Ministries Departments and Agencies
MPSR	Malawi Public Service Regulations
PFMA	Public Finance Management Act
UNICEF	United Nations International Children Education Fund
GPA	General Purpose Advance
AG	Accountant General
JTV	Journal Transfer Voucher
CCAS	Credit Ceiling Authority System
CCA	Credit Ceiling Authority
TCH	Treasury Clearing House
TSA	Treasury Single Account
MoF	Ministry of Finance
ZBA	Zero Balance Accounts
SWAp	Sector Wide Approach
FCDA	Foreign Currency Denominated Account
PO	Professional Officer
CEO	Chief Executive Officer
MDA	Ministries Departments and Agencies
MPSR	Malawi Public Service Regulations
PFMA	Public Finance Management Act
GPA	General Purpose Advance
AG	Accountant General

JTV	Journal Transfer Voucher
CCAS	Credit Ceiling Authority System
CCA	Credit Ceiling Authority
NA	National Assembly
PFMA	Public Finance Management Act
OPC	Office of the President and Cabinet
GP114	Government Printer Number 114
GP113	Government Printer Number 113
PAC	Public Accounts Committee
MPSR	Malawi Public Service Regulations
ODPP	Office of the Director of Public Procurement
IPC	Internal Procurement Committee
GP 27	Government Printer Number 27
NICO	National Insurance Company
DHRMD	Department of Human Resource Management And Development
ACA	Anti-Corruption Act
MLA	Money Laundering Act
FIU	Financial Intelligence Unit
SOCAM	Society of Accountants in Malawi
ICAM	Institute of Chartered Accountants in Malawi
IPSAS	International Public Sector Accounting Standards
MGDS	Malawi Growth and Development Strategy
PPP	Public Private Partnership
FMIS	Financial Management Information System
AGD	Accountant General's Department
OECD	Organization for Economic Co-operation
3Es	Economy, Efficiency, Effectiveness
VfM	Value for Money
NAO	National Audit Office
WB	World Bank
BVFM	Best value for money
WLC	Whole life cost
DFID	Department for International Development
MTEF	Medium Term Expenditure Framework
DEVPOL	Development Policies
PSIP	Public Sector Investment Programme
PFP	Policy Framework Papers
SAP	Structural Adjustments Programmes
PRSP	Poverty Reduction Strategies Paper
MGDS	Malawi growth & Development Strategy
NLTPS	National Long Term Perspective Studies
PAP	Poverty Alleviation Programme
MPRS	Malawi Poverty Reduction Strategy
MSME	Small and Medium scale Enterprises
EHP	Essential Health Package
PEM	Public Expenditure Management

MPA	Malawi Procurement Authority
MEGS	Malawi Economic Growth Strategy
MDGs	Malawi Development Goals
MOEM	Ministry of Energy and Mining
ESMAP	Energy Sector Management Assistance Progra

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