Mid-term review of the institutional co-operation project between National Audit Office of Malawi and the Swedish National Audit Office

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CONTENT

1. Background

This report presents the findings from a mid term review of the institutional co-operation project between National Audit Office of Malawi (NAO) and the Swedish National Audit Office (SNAO). The Governments of Malawi and Norway signed an agreement on this project on April 15, 2002 and phase II of the project was agreed in addendum no 1 on March 4, 2004.

The first phase of the project consisted mainly of planning activities. The objectives of phase II of the project are:

- NAO accomplishes its audit plan, which mainly implies increasing audit coverage compared with the date of signing the addendum.
- The audits have a consistent high quality and the NAO works with a high degree of efficiency.

On January 9, 2004, the Director General of the Norwegian Agency for Development Co-operation (Norad) approved the Appropriation Document, allocating an amount up to NOK 15.2 million for phase II of the project. At the annual meeting in May 2005, it was agreed that a mid-term review of the project should take place during the second part of 2006.

The mid-term review should assess the performance of the project in relation to the goals, objectives and outputs of phase II of the project.

The institutions involved in the project will, on basis of the findings and recommendations from the review, consider any need for changes in the implementation of the project. The review may also form a basis for a dialog between Norway and Malawi in terms of a follow-up or continuation of the project after it has been finalised.

This report also contains a comparison of the technical cooperation and support projects in the supreme audit institution in Malawi and Zambia. The two countries share many characteristics but the two sister institutions have developed very differently over the last few years. The Malawi NAO is in a low point in its history with very low staffing levels and low capacity whereas the Zambian Office of the Auditor General (OAG) has been build up to become one of the best staffed in the region. The chapter is based on a presentation held in OECD DAC on practical experiences with support to PFM reform in December 2006.

During the consultants visit to Malawi a brief memo regarding the possible establishment of A PFM sector reform programme was discussed. This report contains in an annex a copy of the paper that was prepared to illustrate what such a programme could look like in Malawi.

Brief fact sheet

Project name	Institutional co-operation between National Audit Office of Malawi (NAO) and the Swedish National Audit Office (SNAO).
Implementing agency	National Audit Office (NAO) supported by the Swedish National Audit Office (SNAO)
Funding agency	Funding shared equally between Norwegian Embassy (MFA) and Sida
Budget	First phase (preparatory): 1,6 million NOK, Second Phase: 15,2 Million NOK, approximately 50 percent spent by end 2006
Agreement signed:	First phase: 15.4.2002, Second phase: 4.3. 2004
Planned period:	2004 – 2007
Overall objective (outcome):	Contribute to the economic development of Malawi and increased confidence in Government through increased transparency and accountability. The NAO will enjoy a high degree of confidence and credibility. Audit reports from NAO will have full impact.
Project purpose:	NAO accomplishes its audit plan, which mainly implies increasing audit coverage compared with the date of signing the addendum. The audits have a consistent high quality and the NAO works with a high degree of efficiency.
Project inputs:	One long-term adviser from SNAO. Short-term adviser from SNAO. Training programmes. IT-equipment.
Expected outputs:	Strengthened HR Management skills of NAO managers Development of internal training Strengthening of performance auditing Strengthening of parastatal auditing More and better use of IT systems Audit planning and follow-up improved Development of audit standards and manuals and improving follow-up of international developments Public relation work for the NAO Improved staff welfare NAO independence
Risk factors mentioned in programme document	Political will to strengthen transparency and accountability Rolling out of IFMIS and strengthening of internal audit functions Revision of terms and conditions for employment in NAO Sustainability of IT investments

2. Introduction and summary

Summary of findings

The recent PEFA[1] report for Malawi points out that the Public Financial Management (PFM) system in the country has a number of serious shortcomings. One of these is an under-resourced National Audit Office (NAO). Improving the effectiveness of the NAO alone only will probably have limited impact on the total PFM situation in Malawi. Broader reform is needed on all sides of the PFM control functions. The Internal Audit system in each spending unit is not functioning well enough, the accounting system has up to now been to slow to deliver on time and there is slowness and lack of political follow up to reports from NAO.

However, reforms to the PFM system have started. In particular there has been good progress in implementing an IFMIS[2] system. Other important reforms include the public sector procurement legislation and institutions and the efforts to support the establishment of internal audit sections in each spending agency.

The NAO in Malawi has moved backwards in capacity in a period where its sister institutions in neighbouring countries have been strengthened. NAO Malawi went from 180 professional staff in 1999 to below 70 in 2006. The institution is now down to a bare minimum of resources to carry out its mandate meaningfully. NAO Malawi has about 25 percent of the number of staff of its sister organisation in Zambia, a similar sized country with similar institutional setup.

NAO Malawi is presently without an Auditor General and has been so for the better part of 2006. In terms of independence, the situation is similar to other such institutions in the region. Budgets and staffing are controlled by other bodies in government and the government effectively controls the work of the institution. A more independent SAI is a part of second-generation democratic reforms in countries like Malawi.

The Malawi Government seems less inclined to support and build up a Supreme Audit Institution (SAI) than other countries in the region such as for example Zambia, Tanzania and Uganda. Statements made by the Minister of Finance could indicate that this is the result of a conscious sequencing of reforms in the whole PFM/Accountability chain where strengthened Internal audit functions, improved procurement control and accounting (IFMIS) has been given priority. Development partners appears to be increasing the pressure on the Government on the NAO issue, in particular in the budget support dialogue.

There are several independent PFM support programmes in Malawi. The Government and Development Partners (DPs) have begun discussing whether it would be useful to have a coordinated programmatic approach to PFM reform and maybe also create a basket funding

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[1] The Public Expenditure and Financial Accountability (PEFA) reports are based on standardised diagnostic tools that have been developed to compare different countries' PFM systems and to check whether improvements take place over time. The reports are produced by independent experts and the PEFA secretariat in Washington coordinates development of the tools used. The 2006 PEFA report for Malawi is considered to have some weaknesses due to lack of relevant data.

[2] Integrated Financial Management Information System

for channelling DP support. The number of DPs in Malawi is relatively small and the coordination issue is not too difficult to handle informally.

The institutional cooperation project with NAO Sweden under review in this report has achieved a number of positive results in spite of the limited political support for the NAO as an institution and the extremely unfavourable developments in staffing levels. The good results are due to careful design of the project and pragmatic implementation adapted to the needs of the NAO as they evolved. Good results are also a consequence of having recruited a very competent and dedicated long-term adviser in the project. The following observations are made about the project in the NAO:

- The project has initiated a number of very positive activities in the institution like training and training of trainers, IT development, audit planning, audit standards and information work.
- Many other planned activities are on hold and in a sense waiting for better times in terms of new recruitment of staff. These include development of more advanced audit methods such as performance audits and audits of Malawi's large parastatal sector.
- NAO Malawi is concerned about the unit costs of the project. Institutions like the Swedish NAO obviously have unit costs that are high by Malawian standards. The issue would have been less pronounced had the Malawi NAO had more staff, higher activity levels and more capacity to absorb TA input.
- The project design involves two donors represented by one embassy and an institutional cooperation arrangement between the two SAIs. Relative to the size of the project, there is a fair amount of administrative work involved in transferring money, approving work programmes and agreeing on procurements and activities. NAO is concerned about the way the project reimburses the SNAO. This transaction involves changing money to and from Malawi Kwacha.
- In the interviews with involved personnel on the Malawian side there were several references made to the "Swedish/Norwegian project". Usually this means in Malawi that there is a feeling of Malawian not being able to influence the project and that there is a certain lack of ownership. For the average NAO official, the possible uses of the project funds appear too restrictive.
- The NAO project in Malawi and the review of the sister project in the Office of the Auditor General in Zambia shows that the institutional cooperation between a SAI in this region and a sister institution in one of the major donor countries is important and potentially useful beyond the project activities themselves. There is a clear political side to such a twinning arrangement that would not have been achieved if one had just bought the services of the shelf.
- The project has wide-ranging political goals but the project itself lacks the strategic approach, which is needed to establish the right kind of dialogue with the Malawian government. However, in combination with budget support dialogue such a project can have a strategic impact. The Norwegian Embassy has used the project for this purpose to some extent but more could be done in this area.
- The impact that an external audit institution can have on the overall PFM situation obviously depends on how well budgeting, budget implementation and other control mechanisms function. There are challenges in all of these areas in Malawi. The comparison with the situation in Zambia shows that even a well resources external

audit institution have limited impact on the overall PFM situation. This has be fully recognised in Zambia and the country has launched a broad PFM reform programme that also receives considerable support from development partners.

Recommendations

The following recommendations are made based on the discussions with staff of NAO and representatives of the Swedish and Norwegian involved authorities and a comparison with other such programmes in the region, in particular the one in Zambia. The Zambian OAG has been reformed and strengthened and today stands out in the region as the best functioning SAI outside RSA.

The main recommendation is that the NAO project would benefit from a more political and strategic approach to the issue of political support for the institution in Malawi. Such an approach would be based on several activities:

- Continue pushing the issue of capacity strengthening of the NAO as a key benchmark in the budget support dialogue and overall country programming meetings between Sweden, Norway and Malawi.
- Actively work to establish a PFM reform sector programme in Malawi modelled on either PFMRP in Tanzania or the programmes in Uganda or Zambia. The whole accountability chain needs strengthening in Malawi. For the NAO to have make use of more training and more resources it needs to be supplemented by a well functioning internal audit system, a fully operational IFMIS system and genuine political interest in the annual reports.
- Using the link to NAO Sweden more actively to create the possibilities for high level visits and discussions to take place. The idea would be to show the Malawian public that a strong an independent SAI is a part of further democratisation, and that the international community is following events in this area.

Other recommendations include:

- Split the project into an institutional cooperation agreement with NAO Sweden and a more general support programme financed by the Norwegian Embassy. The institutional cooperation programme would then become a normal such programme for the Swedish NAOs international department and be financed directly by NAO ´Sweden from their own resources. The rest of the project could be folded into the PFM sector programme if such a programme is established.
- SNAO and NAO could consider employing one extra long term adviser is stead of the under-utilised short term advisers.
- Propose and finance a full organisational review of the Malawi NAO with the view to reduce the number of organisational layers and optimize work flow and internal on-the-job training. This could most likely benefit recruitment significantly. An organisation like the NAO can recruit well if it manages to offer young professionals training on the job that they are not able to get elsewhere.

3. Reform of public financial control functions in Sub-Saharan Africa

This brief chapter sums up experiences from the PFM reform work in this region in the past 10 years. The main issue is to underline the idea that project like the one reviewed here should be seen as a part of a coordinated effort to strengthen the whole accountability chain.

Broad reforms needed – accountability functions are linked

In particular during the last 10 years a lot of time and effort has been spent on developing better overall public financial control system in Sub-Saharan African countries. There is a growing recognition that the combination of factors has led to a situation of extremely weak such systems in many of these countries. One such factor is quite clearly many years of fragmented aid and the insistence of donors of using their own control systems. The challenge for financial control in organisations that receive development assistance from many different donors is immense, in particular when accounting systems are basically manual and not based on integrated IT systems.

The main problem is however as always lack of political interest and prioritisation by governments which is evident both in lack of investments in new technology and lack of effort to reform the civil service. Many commentators have also pointed out that the cash budget systems that have become common throughout Sub-Saharan Africa has reduced the quality of the budget process and made financial control much more difficult. One is therefore faced with a situation where the entire chain of planning, implementation, control and audit functions needs reform. Improving one element does help but noticeable effect will only be accomplished when all the elements of the accountability chain are worked on and improved.

Programmes to reform and improve PFM systems in general and the control functions in particular need to be based on a broad strategy of reform to lift the standard of all elements of the accountability chain. Programmes also need to be cost effective and prioritised.

Generally, a programme to support the development of a SAI will be dependent on other elements in the accountability chain. Of particular importance would be the situation in internal audit functions throughout the public sector, the accounting systems and timeliness of financial reporting and obviously the parliamentary scrutiny of auditor general's reports. These three functions support and in a sense determine whether the SAI has a meaningful role or not.

Internal Audit functions are important

Internal audit staff can be found in most poor countries' governments, but very often they are not able to move beyond simple tasks. It is very rare that internal control functions in this group of countries are capable of assessing the functioning of control systems and advising the head of the ministry or agency. Studies of PFM reform in poor countries have focused on the internal audit function, and increasingly efforts are being made to enhance the function. Typically, these entail providing training and reviewing legal, organizational and reporting arrangements. It is widely recognized that a good internal audit function can be a cost effective and deal with problems before they happen as it were.

Internal auditors need not only a sound knowledge of government financial management, but also an ability to look at the performance of systems as a whole. People who have these skills command good salaries in the private sector. Furthermore, internal audit works only if there is demand for the services that an internal auditor can provide. This does not exist in many poor countries.

Internal audit will be effective when vote holders are accountable for how they use budget resources. Organizational reporting structures for internal audit should be consistent with the stewardship role of the ministry of finance. With the shift to multi-donor budget support, development partners are in a better position to raise the condition of internal audit in the dialogue. The external audit institution can support in auditing the systems and setup of internal audit and pointing out corrective actions in its report. External and internal audit functions in a country should also be able to use the same training programmes.

Accounts with coverage and timeliness

Looking back on the 80ies and 90ies one is tempted to say that government accounting systems were neglected by both governments and donors, and the necessary investments in staff training, systems modernization and equipment did not take place. In many countries this led to several years' backlog in the production of annual appropriation accounts. Donors mostly ignored this, since their focus was the projects they were financing, for which separate accounting arrangements operated. Governments did as well, since many were authoritarian regimes, and the legislature, if it existed, tolerated the absence of accounting. Now with the return to democracy across the region and the reactivation of parliamentary committees, there is a domestic demand for timely accounts, as statutorily and constitutionally required. At the same time the donors, through the shift to budget support and the HIPC process, are taking an interest in the capacity of governments to produce timely and accurate accounting reports, both from the perspective of better financial management by government, and also for democratic accountability.

Diagnostic reports on PFM have therefore been urging governments to modernize their accounting systems and end the backlog in accounts. Generally, this has been happening, but difficulties have been encountered on the technical front, and modernization is proving both costly and time consuming.

While there was some donor support for accounts modernization in the past, donors generally ignored the failure of governments to render accounts at the end of the financial year, as required by law. This sent a signal to governments that, as far as aid flows were concerned, timely government accounts did not matter, only project accounts. The principal source of pressure during this time was the IMF, but the emphasis here was on accounting information to track the fiscal aggregates, not for democratic accountability. Until the advent of budget support and HIPC, many donor staff were unaware of the statutory requirement for appropriation accounts, and thus never raised it in the dialogue.

Erosion of salaries has meant that accounting departments are unable to recruit, retain and motivate the professionals they need. Furthermore, political leaders have seldom been interested in timely government accounts, and when vote holders are not held accountable, there is little interest in either accounting information for management or for democratic accountability at the end of the year.

SAIs have sat back and waited, sometimes many years and should in stead have reported to the legislature that no accounts have been received for audit within the statutory time period.

The important challenges for the donors now are to act on both the supply and demand side of accounting modernization. To support the supply side, donors need to build up its technical knowledge and distil lessons from the experience of other countries on approaches and sequencing, and continue to be prepared to finance installation of new systems and the training of staff. On the demand side, it needs to continue to put pressure on governments to come current with annual accounts, eventually making the timely production of accounts a basic aid conditionality.

External Audit

The government model at independence for both Anglophone and Francophone countries provided for an external audit process. In the case of the first group the Supreme Audit Institution (SAI) took the form of a constitutional officer – the Auditor- General, protected from arbitrary dismissal and with his salary statutory (i.e. non-voted) expenditure. In the case of the second group, a Chambre or Cours des Comptes was established as a branch of the judiciary. The main task of the Auditor-General was to ensure that spending followed the rules and the appropriation accounts were a true record of how the budget was spent.

This system collapsed into ineffectuality in many countries for a variety of reasons. First, there were delays in the production of accounts to audit. Second, under military rule parliamentary committees set up to receive and hold hearings on the Auditor-general's report were disbanded. Third, as civil service salaries dwindled, the SAI, never well endowed with professional staff, lost those with skills transferable to the private sector.

Fourth, budgets were squeezed, leaving the SAI with little more than a salaries vote, with no capacity to install modern office technology, send staff on training, visit project sites, or high outside consultants to undertake specialist assignments. Most important of all, finance ministries, traditional allies of the SAI, began to forget their stewardship function, and there was little follow-up of audit findings, either during the year or after the annual report had been tabled.

More recently, there have been efforts in several countries to catch up with annual audited accounts, spurred by donor conditionality under HIPC/budget support and by pressure from newly elected legislatures. Yet the external audit process overall remains largely ineffective.

Many countries have passed new audit bills. The new laws passed have sought to give the Auditor-General greater power over his budget and personnel. A common formulation is that the Auditor-General prepares his own budget, and passes it to the Minister of Finance, who must then transmit it, as part of their Estimates, to the legislature without change. The Minister may, however, comment on the appropriateness of the budget if he so chooses. The Auditor-General may also be given greater control over his own personnel, setting salaries and recruiting his own staff. Here he may be guided by an oversight body of eminent persons, including representatives of the private sector profession. He may be given powers to carry out "value for money" audits, and to submit reports on any matter during the year, rather than wait until year's end. These reforms, however, need support from other policy changes to become effectual.

- Unless there is a commensurate speeding up of the preparation of the annual accounts, the completion of the audit will still be delayed beyond the statutory limit.
- Independent preparation and submission of budgets may make little difference if the finance ministry still operates a cash budget, and restricts releases to the SAI to salaries alone.

- The Auditor-General and his staff may choose not to make use of their enhanced independence, and confine their critical observations to minor irregularities. They may deliberately avoid investigating areas of greatest fiscal risk. Few Auditors-General are crusaders, most simply want a comfortable life and elite acceptance, and their reports are aimed at demonstrating that the audit is being performed, but no big boats are being rocked.

The SAI in Anglophone countries is a watchdog, with no direct powers of sanction. He depends on the finance ministry to follow-up with disciplinary actions, but this seldom happens in a "soft" financial management environment.

Parliamentary Scrutiny

The return to democracy in most poor countries has led to the reactivation of parliamentary committees which scrutinize public spending, both *ex ante* and *ex post*. Donors on their part have provided training for members of parliamentary committees, and provided an opportunity for parliamentarians from poor countries to meet and exchange experience with those from richer countries. In many countries media attention to the findings of, say, the Public Accounts Committee, has been striking.

The capacity of committee members to effectively scrutinize budgets and accounts is limited. Skills build up over time, and will be brought to the task if the committee person is a professional accountant. Few are, and the rest have yet to build an understanding of government finances.

Parliamentarians often focus on projects that affect their constituencies, and they may ignore the larger fiscal risks of spending plans which are not location specific may present. Furthermore, they have to generate substantial amounts of cash to retain their seats in the next election. Some choose to go along with the government in order to receive benefits. A parliamentarian who is deeply critical of government waste will find it difficult to raise the resources needed to fight the next election.

Both budget estimates and annual accounts are difficult to read documents, and parliamentarians may be condemned to futility because they lack the skills to understand the documents. If the finance ministry is unresponsive to audit findings, the PAC will be unable to get the executive to take follow up action on PAC recommendations.

The media in many countries are unable to sustain a story such as the PAC more than a few days, and many of their readers find their stories confirmation of what they believe government to be, rather than a call for action. The donors should continue their efforts to strengthen the capacity of parliamentary committees. In so doing, they should put pressure on governments to improve the transparency of budget documents and the timeliness of annual accounts. As with external audit, they should also emphasize executive follow up.

4. The Malawian Public Financial Management system

The latest PEFA report for Malawi describes a public financial management system facing a number of serious challenges. This chapter reviews the main points in the PEFA report and links them with the NAO. The general impression based on interviews with government, development partner representatives and independent observers is that the present government in Malawi is serious about carrying through with PFM reform and that there has in fact been improvements in the overall PFM situation through 2005 and 2006. The effectiveness of an external audit function like the National Audit Office will naturally depend on how well the overall budget is designed, how budget implementation is carried out and how the accounting systems functions. It will also depend on the timeliness and quality of the follow up of audit reports by the Parliamentary committees and thereafter by government agencies. The main challenges faced by the PFM system in Malawi, which has influenced the effectiveness of the NAO, are briefly discussed below:

Extremely weak control over overall spending

In the 10 years of the first democratically elected government in Malawi, the GOM budget was characterised by a, even by regional standards, extremely weak control over spending. Spending was politically driven and it appeared that little if any attention was given to the basic economic facts of the country. This resulted in extremely high levels of domestic debt and arrears. This fed into a very high inflation rate and extremely difficult overall planning and budgeting framework. At the overall budget level, these trends have tended to be reversed by the new Government that came to power in 2004 through the introduction of tighter payment controls. IFMIS control is designed to ensure that financial commitments are contained within actual approved budget allocations and cash available.

Excessively complicated budget structure

The budget documents in Malawi are extremely detailed and very difficult to read and interpret. Also, unreported extra-budgetary expenditures, in particular donor-funded are significant. This makes the total system excessively complicated. In addition, complicated systems, such as MTEF and Output Based Budgeting (OBB), have been adopted – encouraged by donors – when the government lacks the capacity to implement them effectively. While both MTEF and OBB are potentially useful, in their current form they tend to distract attention (of officials and Parliament) from basic annual resource allocation decisions. In addition, the Ministry of Finance (and its Budget Division) appear to be lacking the will and knowledge (perhaps also political support) to effectively ‘challenge’ budget submissions from line ministries, engage in sector policy discussions and advise on resource allocations consistent with priorities - both within and between ministries. For the NAO this means that performance audit becomes very difficult to accomplish and that financial audits become very complicated.

Major integrity problems in the payroll system

The payroll system in the public sector in Malawi is handled centrally by the Human Resource Department. There are a number of problems with the payroll system both in terms of eligibility and the use of allowances. The Medium Term Pay Policy has led to some results, such as rationalisation of the grade structure and the consolidation of allowances into salary. Management of the payroll is particularly weak, GoM generally and DHRMD in particular still do not have a good grasp of leakages from the payroll. NAO has in later year prioritised payroll audit and this is probably an area where the institution could d a lot of good.

Unfinished reform programme in public sector procurement

The Public procurement system has undergone substantial reform in the last 4-5 years but there are still challenges in implementing the new reformed system. The newly established Office of the Director of Public Procurement's (ODPP) has so far lacked budgetary and manpower resources and has so far limited the activities to prior reviews, development activities and some monitoring visits. No post-reviews or audits have been completed. Standard Bidding Documents have been finalised and approved, completing the documentation needed to fully implement the 2003 Act. Specialised Procurement Unit positions have been established in many institutions but so far only the three big ministries, Health, Education and Agriculture have actually appointed staff to the positions. Progress is better among parastatals. In line with the Local Government Act, up to 40 new purchasing units will shortly be established in District, Town and City Assemblies, where capacity is believed to be relatively low.

IFMIS has an international standard commitment control module which interfaces with an international standard accounts payable module. In addition, the procurement of goods/services/contracts can only be executed through standardised Local Purchase Orders (LPO), which are then subjected to IFMIS internal controls. Also, suppliers/contractors have to be registered in IFMIS.

Internal audit functions still weak

Serious capacity problems still remain within the Central Internal Audit Unit and at a Ministry level. It is also clear, that Controlling Officers still do not seek to use the Internal Audit Service to verify, that their staff are applying the GoM's systems of Internal Control effectively. Concerns also remain over the quality of individual audit reports.

IFMIS, together with the centralisation of the payments function (also through 3 Regional Central Payments Offices) appears to have resulted in significant improvements in the timeliness and regularity of the account reconciliation systems. All IFMIS transactions are now paid through only five core bank accounts held at the Reserve Bank. However, all payments for donor-funded projects (Part 1) are still processed through the CCA system and are reconciled in arrear within two months of the transaction date.

IFMIS has also helped to improve the reconciliation and clearance of suspense accounts and advances. The number of Advance Payments has also fallen as a result of the introduction of per diem payments to staff instead of the former travel advances. However, advances are still paid to staff in respect of donor-funded projects (Part 1). The PEFA Report does believe that significant improvements are possible in the quality and timeliness of annual financial statements, once the IFMIS system has been fully operational for, at least, one full fiscal year.

Table 1. The PEFA report. Summary of Performance Indicator Assessments

Performance Indicator		Score 2006 Review
PI 1	Aggregate expenditure out turn compared to original budget	A
PI 2	Composition of expenditure out-turn compared to original approved budget	D
PI 3	Aggregate revenue out-turn compared to original budget	A
PI 4	Stock and monitoring of expenditure payment arrears.	D+
PI 5	Classification of the budget	B
PI 6	Comprehensiveness of information included in the budget	B
PI 7	Extent of unreported government operations	B
PI 8	Transparency of inter-governmental fiscal relations	C
PI 9	Oversight of aggregate fiscal risk from other public sector entities	D+
PI 10	Public access to key fiscal information	B
PI 11	Orderliness and participation in the annual budget preparation process	B
PI 12	Multi year perspective in fiscal planning, expenditure policy and budgeting	D+
PI 13	Transparency of taxpayer obligations and liabilities	C
PI 14	Effectiveness of measures for taxpayer registration and tax assessment	C
PI 15	Effectiveness in collection of tax payments	D+
PI 16	Predictability in the availability of funds for commitment of expenditures.	C+
PI 17	Recording and management of cash balances, debt and guarantees	C
PI 18	Effectiveness of payroll controls	C+
PI 19	Competition, value for money and controls in procurement	C
PI 20	Effectiveness of internal controls for non-salary expenditure	B
PI 21	Effectiveness of Internal Audit	D+
PI 22	Timeliness and regularity of accounts reconciliation	B
PI 23	Availability of information on resources received by service delivery units	D
PI 24	Quality and timeliness of in-year budget reports.	C+
PI 25	Quality and timeliness of annual financial statements	D+
PI 26	Scope, nature and follow-up of external audit	D+
PI 27	Legislative Scrutiny of the annual budget law	-
PI 28	Legislative scrutiny of external audit reports.	D+
D1	Predictability of Direct Budget Support	D+
D2	Financial Information provided by donors for budgeting and reporting of project and programme aid	C
D3	Proportion of aid managed by use of national procedures	D

The picture overall emerging from the table above is obviously that there are many challenging areas but some typical (in a regional and Malawian context) really serious problems appear. One is the economic link between the state (treasury) and the parastatals (PI9). Another concerns the budget implementation issues (PI16 – 19) and a third is the control and audit aspects in PI 25 – 28).

Reforms and TA initiatives in the PFM sector

The main technical assistance programme in the PFM sector in Malawi is the World Bank funded FIMTAP (Financial Management Transparency and Accountability Project). Other

Development Partners including EC, DFID, USAID, UNDP also support various initiatives and projects:

- IFMIS roll out has showed good progress in the last 12 – 18 months. GOM made a decision to use the same system as the one already in use in Tanzania and this proved to be a very wise choice.
- FIMTAP and the EC support the development of the Internal Audit functions throughout government and at the central unit in the Ministry of Finance.
- There is a programme of technical support to the Office of the Director of Public Procurement (ODPP). Development Partners are World Bank, USAID and UNDP.

5. National audit office in Malawi – overall situation

Delays in financial statements and audit reports

The financial statement (the government accounts) for FY 2004/05 should have been submitted to the National Audit Office (NAO) by 31 October 2005, but were only submitted in June 2006. Hence, the NAO was not able to meet the deadline of 31 December 2005 set by the National Audit Act for submitting the certified accounts and the Auditor General's annual report to Parliament.

The NAO report for 2003/04 is completed and will be tabled in Parliament in the next session. It is expected that legislative scrutiny of the report will start early 2007. The Report for 2004/2005 is expected to be tabled in Parliament in the first half of 2007, approximately one year late. The delay in submitting the accounts by GoM to NAO is attributed by GoM to the new initiatives that have taken place at the Accountant General, in particular the implementation of IFMIS. However, according to GoM, the introduction of IFMIS will enable the submission of financial statements to be made within the statutory deadline in future years.

There has been limited follow up of the NAO's and the Public Accounts Committee's (PAC) comments on the accounts for FY1999/2000 and FY2000/01. There has been an initiative to establish a task force of Parliament, with GoM and NAO representatives, in order to help the follow up process. PAC has developed a close dialogue with the Chief Secretary and Controlling Officers to ensure feedback on key issues. However, line ministry responses to Treasury minutes continue to be slow. The capacity and/or willingness to institutionalise compliance of public officials to the PFM Act seem to be very weak. PAC has not yet expressed its opinion on the NAO reports for FY2001/02 and FY2002/03.

Severe capacity constraints in NAO

Despite an increase in allocations to NAO, the capacity constraints remain severe, with a vacancy rate of more than 50 percent. NAO has been without an Auditor General since January 2006. A new appointment is now urgent. A positive sign has been the significant increase in budgetary allocations for the NAO in the 2006/07 budget. The decline in overall staffing has been ongoing for some time. The following is a quote from an interview the author of this report had with the then Auditor General in August 1999[3]:

> *"The NAO is and independent institution and reports directly to the parliament. It audits all the Malawian institutions relying on taxpayers' money. It also reports to the parliament on the use of donor money. This independence has grown stronger since the installation of a multiparty system in Malawi. However, all independence depends on the resources available, and the NAOs resources are limited:*

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[3] Background paper for:

Joint donor review of macro financial support to Malawi. Study 1. External financing requirements and stabilisation policies Commissioned by NORAD 20 September 1999. Study 2 Budgets and budget procedures Commissioned by Danida 20 September 1999

• The institution lacks equipment for example vehicles in order to visit the various regional departments and branches of the ministries;
• There is a lack of experienced staff because of a considerable turn over and alternative and more attractive job opportunities for auditors in Malawi;
• In general financial resources are not adequate.

The Aud.G. is still part of the Finance Act, but is in the process of getting a separate Audit Act. The Aud.G. uses international INTOSAI standards as well as their own professional ethics standards.

The Aud.G. employs a total of 234 persons, 180 of them are auditors and the rest is support staff. There are three ways of entering the Aud.G. as an auditor:

1. *Directly from high school*
2. *Having a diploma in accounting but no experience*
3. *Being a professionally qualified accountant.*

In the two first cases the employee is enrolled in an internal training program with the Aud.G. In all three cases the new employee receives on-the-job-training. An induction course is funded by the UNDP. Moreover, the demand for training is very high and many of the auditors train on their own."

Lack of operational and formal independence

Although NAO is operationally independent, it lacks financial and organisational independence consistent with international standards for supreme audit institutions. The NAO is funded by budgetary allocations through the Ministry of Finance, which is one of NAO's auditees. NAO is also dependent on the GoM civil service in terms of recruitment and pay policy. Development partners have urged GoM to ensure full autonomy for the NAO.

The 2006 PEFA Report was only able to identify marginal progress in this area and that the NAO still has very limited capacity and resources to enable it discharge its responsibilities effectively. This problem has been made worse, as a result of the continuing vacancy at Auditor General level.

Important audit initiatives taken

In spite of these constraints, the NAO has carried out important new tasks in the past 12 - 18 months. NAO has carried out important specific audits of Education Pensions and Development contracts, as well as the Health Payroll. It is also currently undertaking a payroll audit of most Ministries. In addition, the NAO attempts to audit all donor funded projects annually, either by undertaking this work itself or by contracting it out to private sector auditors.

The NAO needs software and training in order to audit IFMIS. When NAO has this and becomes "fluent", it might be the case that NAO will be able to devote more resources to investigating non-compliance which cannot be controlled by IFMIS (such as goods/services not delivered to the right place or quality control on-site audits for road maintenance/upgrading contracts).

The scope and nature of the audit work (including adherence to auditing standards) undertaken by the NAO was assessed in the PEFA report. In recent years, it has focussed on transaction level testing within the larger Ministries. However, there are delays and its annual report to Parliament for 2003/04 is only now being printed, while its certification of the annual accounts for 2004/05 is not now due to be completed until December 2006. The PEFA Report remains extremely concerned at the lack of action arising from audit recommendations – despite the issuing of several reminders to Ministerial Controlling Officers. This is a major weakness in the external scrutiny function.

Increasing the level of external accountability of the Executive is needed

The conclusion of a review of the external audit functions in Malawi is that there is need for more and better scrutiny by the Legislature. This can be achieved through a combination of more focused and better-resourced Budget & Finance and Public Accounts Committees, as well as through improved capacity of the NAO. In addition, to allow the PAC to concentrate on current issues, the GoM may now wish to consider the possibility of the PAC referring many of its outstanding issues to the Anti-Corruption Bureau. Further urgent steps can also be taken by many MDA's to establish and build better consultation with and support from the Civil Society organisations.

The following table shows the PEFA indicator 25. It shows that there were significant unreported expenditure and late submission of financial statements, both serious concerns to an auditor obviously.

PEFA Indicator 25: Quality and Timeliness of Annual Financial Statements

Indicator/Dimension	Assessment	Score 2006
(i) Completeness of the financial statements.	Significant unreported expenditure for 2004/05 (as yet not fully audited by NAO). This unreported expenditure involves NRA; and the National Aids Commission (Part 1).	D
(ii) Timeliness of submission of the financial statements.	For 2004/05, the submission falls in the category of "submitted to external audit within 15 months of fiscal year end, 30 June 2005". Score B requires 10 months.	C
(iii) Accounting standards used.	GAAP (consistent format over time – modified cash basis).	C
Overall score =		**D+**

For 2004/05, the financial statements were submitted to NAO in June 2006. This delay was caused by two factors: by December 2005, the Ministries had only submitted about 50% of their manual accounting records to the Accountant General, who followed up and received more records, ostensibly 100%; however, subsequent to this NAO discovered more

PEFA indicator 26 shows that in the financial year reviewed the NAO had focused on standard financial audits in three big ministries. This financial year, NAO has concentrated on the payroll of some of the bigger ministries.

PEFA Indicator 26: Scope, Nature and Follow-Up of External Audit

Indicator/Dimension	Assessment	Score 2006
(i) Scope/nature of audit performed (incl. adherence to auditing standards).	NAO's recent audits have focussed on transaction level testing in the big spending Ministries (Agriculture, Education and Health).	C
(ii) Timeliness of submission of audit reports to legislature.	NAO's annual report to Parliament for 2003/4 is currently being printed. NAO's certification of the annual accounts for 2004/05 is scheduled to be finished in July 2006.	C
(iii) Evidence of follow up on audit recommendations.	There is little evidence of response or follow up, even though NAO issues reminders to audited Ministries.	D
Overall score =		**D+**

PEFA indicator 28 shows the nature of the follow up of the Parliament to the NAO annual report. The Public accounts committee (PAC) is late in its work and that influences all effects of the work in the committee.

PI 28: Legislative Scrutiny of External Audit Reports

Indicator/Dimension	Assessment	Score 2006
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	PAC has not finished its work on NAO's annual reports for 2002/03 and 2003/04.	D
(ii) Extent of hearings on key findings undertaken by the legislature.	Occasionally, PAC will summons Controlling Officers to appear at a PAC hearing, but this would be around three years after the event.	C
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	PAC recommendations are issued (invariably late), but are rarely acted upon not least because they are so late.	C
Overall score =		**D+**

The legislative scrutiny carried out by the PAC is habitually trying to catch up with a backlog of NAO Annual Reports. Thus, the PAC's impact on the executive is minimal. However, with IFMIS now in place, a lot of the pre-IFMIS non-compliance has been stopped. When the PAC eventually overcomes the backlog, it will be in a better position to focus its investigations on non-compliance (reported by NAO) that cannot be controlled by IFMIS (i.e. where the greatest leakage is most likely).

6. The institutional cooperation with Sweden's National audit Office

This chapter reviews the different activities planned under the institutional cooperation project.

Strengthened HR Management skills of NAO managers

This component consists of two different types of activities. The first is the staff appraisal system and the second is a number of smaller training activities in issues of office management. The NAO leadership considers that the level of leadership skills among management varies from very good to poor, but are still not satisfactory on average (still identified weaknesses pertaining to among other things time management, communication with staff, respectful behaviour towards other members of staff and individual performance of leaders). The conducted short-term seminars appears to have had little effect a more long term course is now being designed. The course will be divided into different modules and attempt to measure progress in between meetings over a 9-month period. It is also the hope of project management that those managers who under-perform will be clearly identified by the appraisal system. When (If) the NAO received its independence from the Civil Service, there should thus be increased room for making adjustments to the composition of the management team.

The design of the open Performance Appraisal System is finished. All staff have now been appraised. System is based on appraisal systems within Malawi as well as in the SAIs of a number of countries.

Assessment:

The NAO organisation in Malawi clearly needs both these two initiatives. Their effect is dependent on improved staffing levels and, as importantly, a thorough review of the organisational structure of the organisation. Presently the NAO has too many organisational levels and is old-fashioned in structure. A flatter more matrix oriented organisational structure would also have the benefit of offering more qualified and interesting work for younger professionals and in using the upper ends of the public service pay scale for a larger proportion of the workforce in NAO. This would most likely help considerably in retaining younger professional staff.

Development of internal training

There has been a high level of activity within this project area. A Training Strategy has been developed and the NAO has, based on the strategy, appointed a full-time Training Manager. A number of staff have also been trained as trainers and have since they completed their train-the trainer-course been conducting all training activities on behalf of the project. The level of in-house training has increased.

A Training Strategy was developed and printed and distributed to all members of staff and one day courses have been held at Headquarters and the Regional Offices in Blantyre, Mzuzu and Zomba on the content of the Strategy.

12 members of staff (including staff from each regional office) were selected based on applications and interviews. They undertook a 2 week intensive train-the-trainer course covering Instructional Techniques and Course Design and Development. 4 members of staff from NAO who are trained trainers through IDI and AFROSAI E (including Project

Manager) were the facilitators at the course. Also a course in revenue auditing has been developed

Assessment:

There is a considerable amount of training 'on offer' for NAO staff. The challenge is to be able to carry out normal duties and training programmes given the shortage of staff. Basically two types of training have been conducted. On the one hand there has been considerable activity in what could be called basic office functions including IT training in standard software packages such as MS Word and Excel. With the introduction of the PC network this has raised the overall level of productivity considerably. Ideally, this type pf training should take place outside an institutional cooperation agreement like this since local companies in Malawi offer this. However, the project identified the problem and acted to solve it. It might not have happened otherwise.

On the other hand a few initiatives have been launched to carry out more advanced and NAO specific training. The main focus seem to have been to present ideas and teach basic tools of performance auditing.

Strengthening of performance auditing

An important objective in the programme was to strengthen NAO capacity in the area of Performance Auditing. There has been some progress in this area staffing constraints eased somewhat in the courtes of 2006. Work has started in developing performance audit manuals

Assessment:

Carrying out performance audits or evaluations of public expenditure including donor-financed activities would be of significant potential benefit for Malawi. Getting value for money is in a sense even more important for poor countries like Malawi. The representatives from Public Accounts Committee that were interviewed also indicated that the Parliament in Malawi would like to see more such audits take place.

The question for NAO is whether the institution should assign resources to standard financial auditing in order to improve the audit coverage or whether it is feasible to build up a capacity to carry out performance audits alongside an expansion of the financial audit work. One option for NAO is to charge substantial audit fees from donor financed projects so as to finance the performance audit work. This would require further build up of capacity and the establishment of an understanding with the donors that this could take place.

Strengthening of parastatal auditing

The project also targeted a strengthened NAO capacity to audit the Parastatal sector in Malawi. Situation here is also that the section is severely understaffed. Activities are planned start when/if more staff have been recruited to the Parastatal Audit Section.

Assessment:

The assessment her is very much the same as under performance audit above. The main difference is that parastatals could possibly pay for the audit themselves. Parastatal audits in a country like Malawi actually consists of two types of audits, one is the audit of the company's own accounts and the other would be the relationship with the state budget and possibly the central bank. The former could be said to be standard audit work for audit companies to take on but the latter is clearly within the natural mandate for the NAO. Thorough audits of the relationship between parastatals, the government and the private sector would be of enormous value to development of an accountability culture in the country.

More and better use of IT systems

The project has targeted IT-development as an important area. The starting point for successfully reaching this output was challenging. The general level of IT skills among staff was very limited and there was a severe shortage of IT equipment. Considerable progress has been made. An IT Strategy is in place and an Annual IT Plan has been developed to guide all work pertaining to IT. There has been a substantial general increase in the usage of IT among staff. The hardware situation is also improved with the arrival of 50 laptop computers and the development of a LAN in NAO's office in Lilongwe.

Assessment:

In this area the project has achieved significant results with limited availability of resources. All the interviewed Malawian staff mentioned IT use as the single most important output from the project. There has probably been a significant productivity shift and a more motivating work environment. The NAO has developed its own web page, which is in full use to spread information. NAO could usefully absorb more IT hardware and should also be linked up with the IFMS system that is being rolled out in central and local government in Malawi.

Audit planning and follow-up improved

The project has assisted the NAO in developing an Annual Plan for the NAO that covers the whole organization and by developing a reporting system to measure progress. The NAO now has a model for organizational planning and progress reporting. The development of the Annual Plan is important to have an overview of audit clients, assigning tasks to various sections and optimise the use of resources within the NAO. The challenge is to get the audit plan and reporting system institutionalized in the NAO and is continued after the project ends.

Assessment:

The project's input in this area has been very useful but there is a question of sustainability of this activity. NAO has also made what appear to be sensible choices in the last 1 ½ - 2 years in regard of where to focus special audits. The work on the plan has probably led to better prioritisation of the NAO's combined resources.

Development of audit standards and manuals and improving follow-up of international developments

Project management reports on good progress within this project area with the development and introduction of a Code of Ethics and Auditing Standards. The Code of Ethics for the NAO has been developed, approved and distributed to all members of staff. The Code of Ethics is in full compliance with the INTOSAI Code of Ethics. Any breach of the Code of Ethics shall in principle lead to disciplinary action. The work on developing the detailed Financial Audit Manuals for the NAO has started, but is some way of completion. The manuals are based on a number of sources such as the AFROSAI E Auditing Manuals, IFAC International Standards on Auditing and Financial Audit Manuals from a number of SAIs. The project has held a course covering international developments in public sector auditing, INTOSAI and AFROSAI in 3 out of 4 offices.

Public relation work for the NAO

The project has helped in arranging a press conference/media presentation that resulted in considerable media coverage and focus on the need for NAO independence. Similarly, the presentation to the CABS group on the challenges facing the NAO was successful and resulted in CABS urging government to grant NAO independence. Despite good progress, a lot of work remains in this field to increase knowledge about the NAO, improve the NAO`s reputation and direct increased attention towards the need for government to grant NAO financial and organizational independence.

The project has initiated a newsletter for NAO. The newsletter provides a very good insight into the activities of the organisation and is used internally and for some external partners. Media coverage for NAO is extremely important and has lately been improving.

Improved staff welfare

The project has been involved in several staff welfare activities. This includes:

- Information programme on HIV/AIDS.
- Assisting NAO HIV/AIDS Committee in providing emergency assistance to HIV/AIDS infected staff in need of hospital treatment.
- Develop and reopen a fully functional library in HQ. This can be used by all members of staff. In the past the NAO had a functioning library, but this has been neglected over the years and was currently not in use. On the initiative of the Project Management, there has been a great effort from a number of staff to re-launch this library.

NAO independence

Only one activity has been planned in this field so far. This activity pertains to a review of the current Public Audit Act. The activity has started, and a seminar was held to map all the necessary changes needed in the legislation to ensure that the NAO achieves independence in line with the INTOSAI Lima Declaration and Core Principles of SAI Independence.

Assessment:

Here the project activities will be limited by the political level interest in these issues.

7. Administrative procedures and arrangements

Proposed overall budget and use of funds

The table below provides the data for the overall budget for the project that was agreed upon signing the project agreement. The budget figures are in round 1000.

Budget item	Quantity	Unit price SEK	Budget SEK	Budget NOK
Long term adviser	30 Months	110	3 300	2 970
Short term missions and management from SNAO	146 weeks	45,1	6 585	5 926
Local consultants	27 weeks	16,6	449	404
Audit fees	3	35	105	95
Reimbursable expenses				
Long term adviser and short term consultants costs			1 843	1 659
NAO visits to Sweden (per diem)			19	17
NAO other travel (pr diem)	1500	713	1 069	963
NAO staff air tickets	57	15	855	770
Travel in Malawi			295	266
Other costs, incl contingency			2 345	2 108
Total			**16 865**	**15 178**

The main areas of under-expenditure so far are the short-term visits from SNAO but also NAO staff travels for training in other countries is well below what was originally planned. Both are caused by the lack of progress in recruiting new staff to the NAO.

Steering of project – transfer of funds

The project is formally run by a **steering committee** consisting of members from NAO and SNAO. In practise the only regular SNAO attendance in these meeting would be the resident adviser. The adviser keeps SNAO Stockholm regularly informed about issues and developments in the project.

The project document stipulates that a **project manager** should be appointed. He/she will report directly to the steering committee. The project manager should be a senior staff member of the NAO. Presently the position is vacant and handled by the Deputy Auditor General. The main role of the project manager is to coordinate project activities in the project team, which consists of both NAO and SNAO staff.

Each project activity will have a budget and be part of a pre-agreed activity plan. The work plan is a kind of rolling plan, the main headings are kept and new elements come in under each heading as other are finished. There is an annual meeting between the Norwegian Embassy and NAO regarding the project and the activity plan for the coming year. The Norwegian embassy represents both Norway and Sweden in Malawi.

Swedish Sida and the Norwegian Ministry of Foreign Affairs share the financing of the project with 50 percent of costs each. The Swedish National Audit Office (SNAO) provide the TA and the backstopping functions. All payments go from the Norwegian Embassy to NAO and the on to SNAO or to other suppliers to the project. SNAO will invoice NAO for all activities carried out.

Release of funding from the embassy is done in accordance with actual expenditures and the embassy has to approve expenditures/procurements over a certain threshold. There have been three procurements so far that have been approved by the embassy. The biggest issue was the cost and type of a project vehicle that was bought to be used by the project coordinator who is recruited and seconded by the SNAO. The others were the procurement of IT equipment and the hiring of an external auditor. The audit of the project seems to have been unnecessarily delayed.

When for example SNAO bills the project, NAO will request to be reimbursed by the Norwegian Embassy. The money will go from the Norwegian and Swedish accounts in equal amounts to the NAO Kwacha account. Then, the NAO has to quickly buy foreign exchange to pay the SNAO in Sweden. This way of operating is seen by the NAO as unnecessarily cumbersome.

Unexpected factors that may prevent achievement of expected results.

Project management and observers of the NAO in Lilongwe naturally point to the shortage of audit staff as the main challenge to both the NAO and the project in achieving short and long term goals. Many also point out the lack of independence from the executive. There are two important ties to the executive. One is the dependence of the Ministry of Finance for the budget and the other is the link to the Civil service and the Humans Resource Department that hold the control of all public sector employment in Malawi.

There is quite a bit of discussion of how interlinked these two issues are. Some observers say that when Conditions of Service in the NAO are poor, this leads to highly qualified staff seeking other employment. This leads to high turnover over staff and that some of the most qualified staff leave. Over the last few years a number of NAO staff has, as an example moved to internal audit jobs in different ministries. Other observers feel that NAO could do more to retain staff within existing conditions of service. This group claim that NAO could recruit better if it offered a shorter career path from beginner to senior auditor positions. A flatter organisation would mean that younger people in the organisation could be better paid, have more advanced job and be more motivated.

There is a severe shortage of staff (particularly audit staff) in the NAO. The number of audit staff is now about 70. This is an unacceptable situation, bearing in mind that the NAO has the audit responsibility for several thousand clients. As a comparison, in 1999 the NAO had 180 professionals working for them. This in turn means that the project must be careful not too “overload” staff with training and project activities as this adversely affects the progress of the audit work in the short.

Recruitments are handled externally by the Civil Service Commission. This process has been slow and it also means that there is limited room for hiring, promoting, and firing staff. As a result, NAO have problems pertaining to the quality of a number of staff in important positions. As a result of the above, implementation of the project and use of the overall budget has been lower than anticipated.

Consideration could be given to utilise the unused funds for short-term advisors to fund a second full time position. The logic behind this would be that a lot has been achieved by the full time adviser and more could be done given a suitable candidate was found.

Another more radical idea would be for the SNAO to finance all the advisers themselves and split the project into a one twinning arrangement and one general support programme for the institution. This would most likely free up some of the resources that are presently unused. SNAO could offer in-kind services to the NAO and the NAO could have separate funding to source services also from other suppliers of training etc.

8. Support to the supreme audit institutions in Malawi and Zambia

Two similar countries

Malawi and Zambia share many characteristics. The two countries are neighbours and share history and culture. At around 11 million they are about the same in terms of population size but the Zambian land area is about 7 times bigger than Malawi. Income levels are difficult to compare. Both countries have not fared well in the post democracy years. Zambia has had problems with its mining sector and Malawi has struggled to get out of deep-rooted structural economic problems. Both countries have suffered droughts in the 90ies and been hit hard by that. It is generally believed the income level in Zambia on average could be around 15 to 20 percent higher than in Malawi. The Zambian public sector is somewhat bigger than the one in Malawi, perhaps mainly since the education system has a better coverage and the land area being bigger.

The two countries have similar colonial background and therefore have similar government systems based on the British system of government. In such a system an independent supreme audit institution (SAI) is an important arm of the whole public sector structure. The Zambian SAI is called the Office of the Auditor General (OAG) and the Malawian the National Audit Office (NAO)

Zambia and Malawi also share political systems, and the big difference form the British is obviously the Elected President with wide ranging powers. Compared to a system of a non-political head of state and a Prime Minister approved/appointed by Parliament, the system of an elected president reduces the overall influence or power of an institution like the National Audit Office. Both Zambia and Malawi have, however, active political opposition in the parliaments. This ensures a basic political interest in the auditor general's report.

The independence issue –full independence planned in Zambia

Both the Zambian OAG and the Malawian NAO get their budget trough the respective Ministries of Finance. Management and staff of both institutions see that as a main impediment to developing the institutions further. Ministry of Finance spokespersons in both countries claim that this issue is unimportant and simply a matter of keeping control over public sector wage bill in a very severe budgetary situation. International conventions stipulate that SAIs should ideally get their funding directly from Parliament without any interference from the executive.

Their respective Civil Service Commissions and Humans Resource departments also hire, fire and promote staff in both institutions. This system is used for the entire civil service with a few exceptions and is clearly out-dated. It has been abandoned in most countries in the world. Management and staff in both institutions complain about this and see it as an even greater threat to independence than the budget issue. International conventions stipulate that SAIs should hire and fire their own staff.

The Zambia OAG puts its Annual Report before Parliament through the Office of the President. This is also in conflict with international standards, which basically say that any Auditor general should have full and immediate access to the parliament. In Malawi the report has to go through the Speaker of the National Assembly which is according to international standards.

The big difference between Zambia and Malawi as regards the independence issue is the Constitutional Commission in Zambia has proposed full independence. If this amendment is passed, and that is indeed likely, Zambia will have one of the most modern Auditor general legislation in Africa. In Malawi, on the other hand there appears to be little political interest in this although the development partners have kept up the pressure on this issue.

Reforms, staffing and resources – two different worlds

There are striking differences between the two institutions in regard of staffing and resources and in terms of overall thrust of the reform effort. The Zambian OAG has made a strong reform effort, led by competent management and backed by the President and parliament in Zambia. Development partners have also backed the institution in several ways. This has led to expanded staffing. The institution now has over 300 auditors which is more than doubling since 2002. There have also been significant improvements in office infrastructure and equipment. The overall activity levels is high in terms of coverage of audit work and expansion into new areas of audit.

In stark contrast the Malawi NAO has had years of declining capacity, declining professional standards and staffing. It now has about 70 - 80 auditors. As late as in 1999 the number was 180. There are problems in infrastructure and transport and an overall low activity level. The institution is presently without an Accountant General and the President of Malawi seems not to be in a hurry to appoint a new one.

PEFA reports

Both countries have recently had PEFA reports and the results clearly underline the big differences between the two institutions. Zambia OAG receives very close to top score and Malawi is close to bottom. The Zambian OAG is probably today one of the best in the region outside South Africa. It is on time in terms of reporting, has a good overall coverage and the PEFA review finds evidence of follow up of the report.

PEFA Indicator 26: Scope, Nature and Follow-Up of External Audit

Indicator/Dimension	Assessment	Comment
MALAWI Overall score	D+	
(i) Scope/nature of audit performed (incl. adherence to auditing standards).	C	NAO's recent audits have focussed on transaction level testing in the big spending Ministries (Agriculture, Education and Health).
(ii) Timeliness of submission of audit reports to legislature.	C	NAO's annual report to Parliament for 2003/4 is currently being printed. NAO's certification of the annual accounts for 2004/05 is scheduled to be finished in July 2006.
(iii) Evidence of follow up on audit recommendations.	D	There is little evidence of response or follow up, even though NAO issues reminders to audited Ministries.
ZAMBIA Overall score	B+	

(i) Scope/nature of audit performed	B	All entities are covered annually for an audit certification of financial statements, but the OAG does not have adequate financial and human resources for an audit scrutiny of all the accounts annually. In terms of expenditure the audit is covering about 75%; in terms of entities/accounts the coverage is about 50%
(ii) Timeliness of submission of audit reports to legislature	A	Since 2002, the annual audit report is submitted to Parliament within 4 months of receipt of financial statement and within 12 months of the end of the fiscal year, which is the statutory limit.
(iii) Evidence of follow-up on audit recommendations	B	Once the audit report is finished and submitted to the parliament, the responsibility for making recommendations rests with the PAC, and the Government is then supposed to take responsibility for follow-up on the recommendations from PAC. OAG in subsequent reports makes observations on action taken or not.

The technical support programmes

The Zambian OAG has been involved in an institutional cooperation programme with OAG- Norway for a number of years. In addition the OAG receives considerable support for infrastructure development and transport form the institution's component in the PFM sector programme in Zambia called PEMFA. It has now been proposed to merge the two programmes but it is expected that the institutional link with OAG-Norway will be maintained. Support to OAG Zambia has been solely based on short-term technical assistance.

In Malawi, the NAO has established a similar institutional cooperation programme with NAO- Sweden, and it also receives some support from the Millennium Challenge Corporation (MCC) and USAID. The programme in Malawi has one long-term resident adviser from NAO Sweden and a so far limited number of TA interventions based on short term visits.

Both institutions feature prominently in the budget support dialogue with development partners. Also other high level meetings between the two countries' governments and development partners have brought up issues of capacity of the SAIs. In Malawi the precarious situation in the NAO has become perhaps the main problematic issue in CABS[4] budget support dialogue.

The two TA – programmes have similar goals but apparently achieve very different results. The main conclusion from this study is that this is caused by the vast difference in domestic political support for the two institutions. There is nothing new or surprising in this –

[4] Common Approach to Budget Support where dvelopment partners include EU, DFID, Norway and Sweden and where the World bank is soon to join in.

development cooperation work well when frameworks are conducive. For high level political institutions like these the main framework is the support from the country's own government.

Both programmes contain what has come to be typical elements of PFM support programmes:

- Both highlight the need for independence of the SAI and both has struggeled to find ways and means to achieve that. The typical activity would be different forms of information work to raise public and political awareness of the importance of these institutions. The programme in Malawi is in an early stage of this work.
- Both programmes offer training of various types. Obviously there is a difference in how much training activity can be undertaken when the number of trainable staff available. In NAO Malawi there has been a tendency to oversupply training.
- Both programmes also emphasise the introduction of new audit techniques such as performance and forensic audits. Again, this seems like a relevant idea in Zambia but not in Malawi where there is virtually no staff to receive such training. Both institutions would probably benefit from a thorough assessment of how much effort should be put into these areas since there is clearly need to keep up the activity levels in normal transaction level audits.
- However, as both countries seek to build up internal audit functions in each spending unit, they are introducing IFMIS and modern payroll systems and have established public procurement overseeing bodies the role of the SAI will naturally change towards more high level, value for many type audits.
- Both TA programmes have had notable success in supporting audit planning and organisational development. The importance of audit planning is often overlooked in institutions like these. In particular when resources are as scarce as in Malawi, the issue of selecting what type of transactions and institutions to audit closely becomes very important.
- Lastly, both programmes could be more focused on what role a SAI should play as internal audit functions, IFMIS and automated payroll systems are introduced. The PEFA in both countries point out that vast accountability problems arise from weak budget implementation. Budgets are unrealistic and the cash allocation system has taken over as the real resource allocation system in both countries. The question arise whether the auditor could become more of an adviser on realistic budgeting and budget implementation and do what could be labelled budget systems audits.

Fulfilling criteria: Country leadership and ownership

The OECD DAC has established a number of high level criteria for successful PFM reform programme support. It seems clear that OAG Zambia enjoys strong support from the highest political level such as parliament and president. The institution has clear home grown visions and formulation of goals and is about to be given the most modern legislation on the continent.

For NAO Malawi the picture is different although a few postitive sign have been seen recently. There is less pronounced political support and the institution is unsure about its role and status.

An interesting question in this regard is obviously whether the high level political dialogue with DPs gave been different. This is a difficult question to answer. The answer probably lies no with the development partners but within the politics of the two countries. The Zambian president is by background a lawyer and businessman from the Copperbelt who wants to open Zambia's industry and trade to the world. The Zambian government and large parts of the MPs has clearly seen that both donor support and foreign direct investment is related to governance issues and fight against corruption. A strong SAI is a clear sign to the world that the country is serious about trying.

These motives are less clear in Malawi where government officials appear to be more stuck in old ways of mixing government, parastatals and private business interests in the tradition of the Banda years. The present president in Malawi is not cooperating well with the parliament majority and is much less exposed to foreign investors. The media in Malawi is much weaker than in Zambia so that the overall "demand" for domestic accountability is weaker.

Do the projects fit country specific circumstances?

Both projects show a tendency to prefer advanced TA issues linked to performance audits and high profile forensic audit and could be said to be "forgetting" about important traditional tasks such as:

- Financial (transactions level) audits coverage
- Systematic use of IFMIS and modern payroll systems that stop misuse of allowances and ghost workers
- Support to the internal audit system
- Support to the budget implementation system development

This is to some extent probably supply driven since the foreign advisers coming to the two countries find the "modern techniques" more interesting and challenging. There is also a tendency for the management of the two institutions to see themselves as investigators of high profile fraud cases rather than guardians of good systems as it were.

Do the projects have a holistic perspective on capacity building?

Both projects have an emphasis on individual training needs rather than promoting organisational development. Both these institutions could most likely benefit from a reorganisation effort away from multi-layered hierarchical organisations towards modern and flatter matrix organisations. This would create more on the job training; increase staff motivation and structure training around on the job tasks.

This would also go a long way meeting the need for higher individual pay since higher salary scales could be used for the younger / less experienced members of staff. An organisational review could also point to ways in which the SAI could become effective in the overall PFM reform framework.

In terms of providing coherent and coordinated support both projects fare reasonably well. In Malawi – the number of DPs is low and there appears to be what could be called successful informal coordination. There have been attempts in Malawi to start discussing a coordinated PFM reform programme.

In Zambia the main problematic issue is whether SAI should be part of the PFM reform (and basket funding) or not.

Summing up

The reviews and comparison of the two projects indicate that they are important and well designed projects and that it is important in countries like Zambia and Malawi to support the SAI. However, the comparison also indicate that political will/(and high level dialogue) is absolutely necessary to achieve results.

Institutional cooperation can be effective - on two levels - technical and political but the institutional cooperation programmes suffer significant losses of effectiveness when staffing constraints become as serious as in Malawi.

SAIs have set up a solid system of international cooperation, standardisation of procedures and exchange of knowledge and ideas. This makes institutional cooperation arrangements inherently more successful in this area than many other. There is also a strong political signal in such a cooperation effort.

SAI work lends itself to benchmarking and comparing OAG in Zambia with NAO Malawi does provide food for thought on how such institutions can develop and become strong accountability institutions.

The following questions arise from these short studies:

- How can support for SAI strengthen the whole accountability chain? Can and should SAIs become centres of excellence in PFM and provide more advisory functions in addition to the control functions?
- What is a cost effective mix of internal audit systems in each spending unit and external oversight and audit. SAI's in Africa seem to see themselves as a first line of defence against misuse of funds whereas they in other countries represent the last and ultimate test, after a number of other control mechanisms have been used. SAI's are in a sense too costly and too slow to be the first line.

Annex 1 Possible PFM programme in Malawi

COPY of MEMO

25.11.2006

POSSIBLE PUBLIC FINANCIAL MANAGMEMENT REFORM PROGRAMME (PFMRP) IN MALAWI

This memo presents an idea to merge and coordinate ongoing public financial management reform activities into a joint programme of actions, called the Public Financial Management Reform Programme (PFMRP). The programme would both coordinate and steer the Malawi Government programme and guide the support of development partners. The reforms are key issues in dialogue with development partners, including the move towards direct budget support.

Other countries in the region are in the process of implementing similar programmes. PFMRP in Tanzania, FINMAP in Uganda and PEMFA in Zambia are all under implementation. In Uganda and Zambia, the IFMIS roll-out is the key component.

A PFMRP in Malawi would integrate and coordinate ongoing activities and if needed facilitate new and/or expanded activities. A Steering Committee (for example headed by the Secretary to the Treasury) and a secretariat in the Ministry of Finance would manage and coordinate the programme. The sub-components would be reporting to the Steering Committee and headed by component managers. Component managers would be key positions since each institution would be responsible for implementation.

There are ongoing project activities supported by development partners that should be seen as parts of the new programme. These activities are linked to ongoing agreements and different forms of institutional co-operation. This means that at least in the medium term there are three possible external funding sources for these activities. They are:

- Directly funded projects from single donor like the projects ongoing today including the institutional twinning arrangements.
- A basket or pooled funding arrangement using either Government or international tendering procedure.
- Use of the government’s own funds including budget support funds.

The PFMRP could well be based on a combination of these three. That would mean that in carrying out this programme the Ministry in consultation with the Joint Steering Committee would source funding from one of these three depending on availability and what is practical. There might also a need to be able to use single donors' capacity for procuring services and not having to go through the full pooled funding international tendering procedure every time there is need for smaller TA efforts for example. A coordinated PFMRP would have the following key advantages for Malawi:

- A PFMRP would ensure that efforts are made to improve the whole accountability chain from budget planning, implementation, accounting through to audit and oversight.
- The steering committee would make sure that efforts are coordinated. Budget reform is linked to IFMIS, internal audit and procurement audits should be linked to external audit functions etc. Coordination would ensre more cost effective implementation.
- Development partners would most likely be willing to fund substantial parts of such a programme and total available resources for PFM reform would most likely increase substantially. This would mean quicker roll-out of IFMIS and the possibility of funding buildings and vehicles under the programme.
- Dialogue with Development partners would be structured around annual meetings of the joint Government-DP committee meeting. These would support the CABS process. The CABS dialogue could focus more on development issues and issues such as bringing project and Swap funding into budget support.

The PFMRP could have the following components as shown in the enclosed figure. The suggestions are meant to illustrate what could be done and should not be considered a precise proposal:

PFMRP Malawi – Possible overall design

Semi-annual meeting With Development Partners	**Steering committee** ST, Acc.Gen, Dep. Aud.Gen, department heads	Basket Fund from Development Partners
Analysis of progress in PEFA report	PFMRP Secretariat (MOF, Acc. Gen)	
Component 1 Roll-out of IFMIS/ Internal Audit Acc. Gen. MOF	Budget and planning for each reform component Work programme	Component 7 Statistics reform
Component 2 Budget reform, Budget Department, MOF		Component 6 HRIMS Payroll reform
Component 3 Planning/Ec. policy MOF	Component 4 National Audit Office Reform and strengthening Parliament committee support	Component 5 Procurement reform

People interviewed

Name		Function	Organisation
Rajula	Atherton	Programme officer	USAID/MCC
Hon A.	Banda	MP	PAC
Thomas	Baunsgaard	Resident Representative	IMF
Hon R.	Dzanjalimodzi	MP	PAC
Gunnar	Føreland	Ambassador	Embassy of Norway
Magnus	Gimdal	Sen. Advisor	Swedish NAO
L. S.	Gomani	Dep. Auditor General	NAO
Einar	Gørrissen	Project Manager	Swedish NAO
R. A.	Kampanje	Accountant General	Ministry of Finance
G. J.	Kanyanula	Ass. Auditor General	NAO
Myers	Martha	MCC Team leader	USAID
Naomi	Ngwira	Director General	Ministry of Finance
Khwira	Nthara	Economist	World Bank
Jan Olav	Pettersen	Economist	Embassy of Norway
Jerome	Pons	First Secretary	EU Commission
Leif	Sauvik	Councellor	Embassy of Norway
Henrik	Selin	Head DCO	Swedish NAO
Alan	Withworth	Economist	DFID

Sections visited and interviewed in NAO include:

Performance Audit Section

Establishment Section

Investigative Audit Section

NAO Trainers

Audit Section C

Audit Section B