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SWAZILAND - COUNTRY INTEGRATED FIDUCIARY ASSESSMENT

September 2011

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CURRENCY EQUIVALENTS

(Exchange rate as of September 12, 2011)
Currency Unit = Swaziland Emalangeni
USD 1 = SZL 7.25

GOVERNMENT FISCAL YEAR

April 1 – March 31

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Acronyms and Abbreviations

ABB	Activity Based Budget
ADB	African Development Bank
AG	Auditor-General
CFAA	Country Financial Accountability Assessment
CG	Consultative Group
CIFA	Country Integrated Fiduciary Assessment
CMA	Common Monetary Area
COFOG	Classification of Functions of Government
CPs	Co-operating Partner(s)
CPAR	Country Procurement Assessment Report
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
CTA	Central Transport Agency
EC	European Commission
EU	European Union
FMS	Financial Management System
FY	Financial Year or Fiscal Year
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GFSM	Government Financial Statistics Manual
HIPC	Highly Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IT	Information Technology
MDA	Ministries, Departments and Agencies
MEPD	Ministry of Economic Planning and Development
MOF	Ministry of Finance
MOPS	Ministry of Public Service
MTBPS	Medium Term Budget Policy Statement
MPSAs	Ministries, Provinces and Spending Agencies
MTEF	Medium Term Expenditure Framework
NAO	National Authorising Officer
NDS	National Development Agency
NERCHA	National Emergency Response Committee on HIV/AIDS
NS	Not Scored
OAG	Office of the Auditor General
PAC	Public Accounts Committee
PE	Public Enterprises
PEFA	Public Expenditure and Financial Accountability
PEMFA	Public Expenditure Management and Financial Accountability
PER	Public Expenditure Review
PEU	Public Enterprise Unit
PFM	Public Financial Management
PFM-PR	Public Financial Management Performance Report
PM	Prime Minister
PS	Principal Secretary
PRBS	Poverty Reduction Budget Support
PSRP	Public Sector Reform Programme
SACU	South African Custom Union
SCOPE	Cabinet Standing Committee on Public Enterprise
SME	Small and Medium Enterprises

SNG	Sub-National Government
ST	Secretary to the Treasury
SRA	Swaziland Revenue Authority
TAS	Treasury Accounting System
TOR	Terms of Reference
VAT	Value- Added Tax
WB	World Bank

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MAIN REPORT

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Summary Assessment

In his "Budget Speech 2010", the Honourable Minister of Finance of Swaziland underlined that Swaziland is entering a period of economic uncertainty. Difficult budget decisions have been taken in view of the fiscal constraints and there is a need for implementation of strong macro-economic policies and much deeper structural reforms in order to restore fiscal sustainability and fiscal space for priority spending. He stressed in his conclusions that failure is not an option, as this would condemn Swaziland children to a life of perpetual debt. These messages continue to be relevant at the time of publication of this report.

This integrated fiduciary assessment is intended to assist the Government of Swaziland to define and implement their priority actions to mitigate key risks in achieving the objective of fiscal sustainability with increased spending on Swaziland's key priorities.

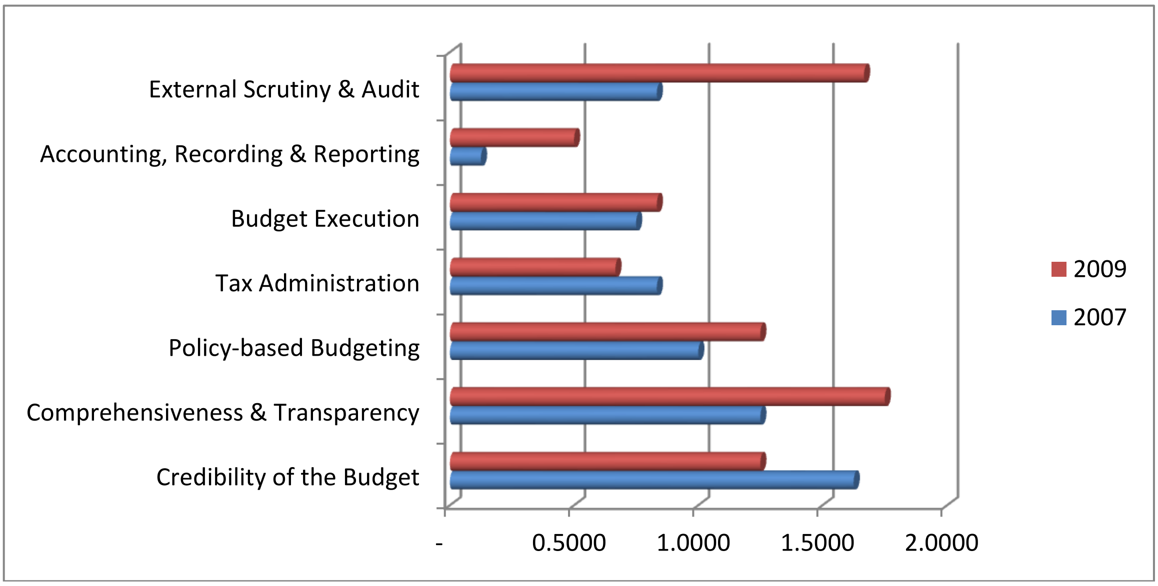
The recommendations herein have been derived from an assessment of the performance of the PFM system at the central government. The methodology followed was to use the Public Expenditure and Financial Accountability (PEFA) set of 31 PFM performance indicators. Results were compared to the 2007 PEFA assessment to determine progress and the status of the PFM system at this time. The results of the assessment enabled the identification of key PFM risks, for which mitigating measures have been proposed. This should assist the Government of Swaziland to formulate and embrace a well sequenced action plan to address the primary fiscal concerns at this time.

The assessment, undertaken by team of Swaziland and World Bank officials and external consultants, relied on interviews and information from officials in the central government. In addition, reference was also made to previous assessments done on PFM systems in the Kingdom of Swaziland, namely (i) the 2006 Public Expenditure Review report, (ii) the 2007 PEFA Public Finance Management Performance Report (led by the European Commission), and (iii) the 2008 IMF Article 4 Consultation Report.

1. Integrated assessment of PFM performance

Overall, there are improvements in a number of the PFM areas assessed. Figure 1 below presents a comparative view of the PEFA indicator sets for 2007 and 2009, using a standard scoring key.

Figure 1: Comparison of results from 2007 and 2009 assessments



Key: 0=D; 0.5=D+; 1=C; 1.5=C+; 2.0=B; 2.5=B+; 3=A.

Key improvements are summarised below:

- The budget is approved by Parliament before the start of the fiscal year.
- Supplementary budgets were only issued once in 2005/6 and 2006/7, and twice in 2007/8 - previously supplementary budgets were issued frequently.
- Procurement regulations have been issued and a number of measures to enhance procurement have been introduced, e.g. training of staff, improved methods to award contracts and enhanced tender board practices.
- Improved timing of submission of the central government consolidated financial statements for external audit.
- More timely reviews by the Parliamentary Accounts Committee (PAC) review of Auditor-General reports.

Credibility of the budget

Aggregate credibility of the budget was maintained as deviations from the primary approved budget estimates were kept to a minimum. Overall, the actual budget spending for the three-year period 2006 – 2008, were almost similar to the budgeted amounts. However, the budget allocation and spending in individual budget heads were not aligned, mainly resulting in overspending in recurrent expenditures and under spending in capital expenditures.

The under spending in capital expenditure was mainly due to capacity limitations, weak project implementation and possibly a lacklustre pursuit by civil servants to implement long term capital programs as authorized. Overspending in the recurrent budget can be attributed to weaknesses in expenditure controls and the lack of appropriate implementation of the commitment system – where manual purchase orders are still raised and certain payments such as salaries, utility services, CTA, etc. are not included in the commitment system. Budget data in the budget estimates and Treasury financial system and reports do not always agree, which further complicates financial control. Arrears recording and monitoring mechanisms are non-existent - an area that needs to be addressed as it currently negatively impacts on budgeting and cash flow forecasting.

Comprehensiveness and transparency of the budget

There are improved comprehensiveness and transparency of the budget. The budget classification follows GFS and COFOG standards. The Parliament is provided with 8 of the 9 prescribed budget documents for scrutiny and approval and the public is provided with fiscal information covering 3 of the 6 recommended information requirements.

Concern still exist that income and expenditure data (both estimates and actual) on donor financed projects are not reconciled to other information sources and that risk exposures to public enterprises (PEs) and sub-national government (SNG) are not consolidated and monitored.

Policy-based budget

While there is a clear annual budget calendar, minimal time is provided between the finalisation of budget ceilings and submission of the budget proposals by Ministries. However, the budget is approved before the start of the fiscal year.

Overall, there is evidence that the multi-year budget process fails to establish a clear link between objectives, priorities, programs and annual budgets. This is further confirmed by the fact that long term investments and recurrent costs are not substantially costed.

Predictability and control in budget execution

While taxpayer obligations and liabilities are transparent, there is no legal stipulation that requires tax payers to register or be penalized for failure to register. In addition, the existing tax registration systems are not integrated; each type of tax has its own system, which operates independently. Information on tax arrears does not exist and no reconciliations are performed to determine the extent of tax arrears. Overall, the process to register, assess taxes and enforce payment is weak.

Debts and guarantees are granted by the Minister of Finance under an Act of Parliament. Swaziland Public Debt Policy sets out the procedures and ceilings for Government loans and guarantees. A debt sustainability assessment has not been performed recently and should be considered in order to determine the government's ability to service its current debt and limit of debts that it can incur. External debt information is recorded. Weaknesses exist in the system to record loans and guarantees to PEs and SNG. In addition, the there is no Treasury system to reconcile the completeness, validity and accuracy of information on loans and guarantees.

Expenditure control is underpinned by a system of quarterly warrants and a commitment control system, which is lacking in several respects as explained earlier. The use of supplementary budgets has improved with only one out of the three years under review seeing more that one supplementary budget being issued. However, it would appear that supplementary budget merely regularise spending decisions outside of the original budget, whereas normally supplementary budgets should be intended to manage unforeseen and unavoidable expenses. The lack of a robust fiscal framework, spending decisions outside of the normal budget arrangements and the lack of a sound integrated financial management system further impedes the ability of the government to implement the budget as originally approved.

There are improvements in the procurement system, although incidences of corruption are still noted and reported in the media. While there are controls on payroll processes, the human resource management system has not been deployed in all Ministries and is not integrated with payroll system. In addition no payroll audit has been performed in the last three years. Furthermore, it is imperative for the government to fully implement an effective system that will monitor commitments and arrears.

Areas of ineffectiveness in the internal audit department still exist, especially in compliance to standards of good practice and the internal audit methodology followed.

Accounting, recording and reporting

There are a number of concerns regarding the persistent lack of reliability of accounting records. Bank reconciliations are only done once a year; very little information is maintained at Ministries on resources received directly by service delivery units; Ministries prepare quarterly reports comparing actual expenditure against the budget - however, there is no evidence that a consolidated position is produced either by the Treasury or the MOF, or that the quantitative data presented necessarily agrees to the TAS; and the reliability of the data is further compromised by the lack of regular bank reconciliation. Central government consolidated financial statements do not include certain essential information on assets and liabilities. No formal accounting standards are used to prepare central government financial statements. The financial statements are only submitted for audit 8 months after year-end, which lags good practice by a considerable margin.

External scrutiny and audit

The Auditor-General (AG) performs financial audits on central government consolidated financial statements and transaction audits on Ministries. The AG does not cover PEs and SNG. The scope of audit work is limited due to capacity constraints, both in terms of the number of staff, budget and technical expertise available to the AG. In addition, the AG does not apply recognised auditing standards, such as the auditing standards of the INTOSAI and / or International Standards on Auditing. This further impedes the quality of audit work done. Audited financial statements are submitted to Parliament 11 months after year-end, which render audit findings ineffective and negatively impacts the timely implementation of recommendations.

The PAC, on behalf of Parliament, reviews the Auditor-General reports on a timely basis. However, the quality of its reports requires improvement which can be achieved by expanding its technical expertise – member training and technical experts in the secretariat, its access to resources and more importantly strengthening legislation to enable punitive penalties. The level of compliance by the Executive to implement PAC recommendations is low and the PAC has no legal recourse to impose penalties on non-complying officials.

It is commendable that the Parliament reviews and approves the budget before start of the fiscal year.

Donor practices

Donor practices have again not been scored and it is recommended that this report be used as a point of departure to establish a dialogue amongst the Government and development partners regarding budget support, and the integration of donor support into the planning, budgeting, and other national procedures for execution.

2. Assessment of the potential impact of PFM weaknesses

Although there has been improvement in some areas compared to the last assessment, the PFM system in Swaziland has yet to achieve levels of good practice that will ensure fiscal discipline, strategic allocation of resources, efficient, economical and effective service delivery and accountability. Most PFM indicators continue to lag basic levels of good performance. There remain key risks in the PFM system that require urgent further mitigation – (i) over-expenditure due to poor discipline in expenditure controls; (ii) high levels of expenditure arrears due to lack of full implementation of a commitment system; (iii) weak accountability arrangements due to inadequate capacity in financial reporting, internal audit, Auditor-General and the PAC; (iv) weak payroll systems; and (v) fiscal shortfalls as there is no appropriate fiscal planning framework and ineffective tax institutions.

From a point of view of fiduciary risk – i.e. the risk that funds will not be used for its intended purpose - the analysis overall indicates towards substantial risk. It would be prudent for the Government to utilise the findings and recommendations in this report to formulate, approve and disseminate a PFM reform action plan, which will provide evidence of a commitment to address the existing fiduciary risks in support of potential future budget support from development partners.

The Government has already started to define and implement key building blocks of such a PFM reform action plan – preparation of new bills for Public Finance Management and Procurement; review of the Local Government Act; 2010 budget cuts in most Ministries; recognition that the wage bill is unsustainable; and establishment of a new Swaziland Revenue Authority. Additional recommended measures are summarised in par. 3 below.

3. Recommended reforms

As already stated, the Government has started to define and implement key building blocks of reform – preparation of a new Public Finance Management Bill and Procurement Bill; review of the Local Government Act; 2010 budget cuts in most Ministries; recognition that the wage bill is unsustainable; and establishment of a new Swaziland Revenue Authority.

To further address the core issues, the Honourable Minister of Finance sets the right tone in the "Budget Speech 2010" by stressing the need for "business unusual" in "the most difficult budget I have ever presented". He struck a chord by emphasizing that this situation "allows us an opportunity to exploit the crisis and ensure that it acts as a catalyst for change in our economy. It allows us an opportunity to make some much needed reforms in our economy and allow the space for innovative policies to kick-start our recovery and growth. .... In years to come we will be judged by what we achieved for this country." Breaking from previous "hegemonic trends" by belt-tightening, breaking from past patterns of expenditure and embarking on a new path for change and reform will require discipline, a change in mindset and the need to be bold, the Honourable Minister Sithole said further. He further emphasized the urgency to establish a consensus towards a program of action, through adoption of a "Fiscal Adjustment Roadmap". Immediate actions already announced include a 14% cut in base line budgets; close monitoring of personnel expenditure and payroll audits; improving efficiency of spending; implementation of an Enhanced Voluntary Early Retirement Scheme (EVERS); and preparation of a comprehensive debt strategy for Swaziland. Sectoral focus areas have been and will continue to be health and education, as well as reducing the reliance on food aid.

The overall budget deficit presented for the 2010/11 fiscal year amounts to 13% of GDP – up from the preliminary outturn of about 5% of GDP for 2009/10. This increase in budget deficit is mainly the result of the decline in SACU revenues - the 2010 estimate of revenue, including grants, is down nearly 31% to E6.326 billion.

To manage this fiscal situation back to more sustainable levels requires an immediate focus on the following areas – (i) contain personnel and other recurrent expenditures; (ii) careful execution of the capital program (of which low execution rates in the past has assisted to contain budget deficit levels); and (iii) increase revenue streams. The identified key weaknesses in the PFM system have a direct bearing on the fiscal challenges the government face at this time - a weak fiscal framework, weak expenditure controls, ineffective accounting, reporting and monitoring systems and tamed accountability mechanisms.

Immediate priorities could include five actions – (i) implement additional measures to contain the wage bill; (ii) effective implementation of the expenditure commitment system; (iii) reschedule or find alternate sources of financing for capital expenditure in non-priority sectors; (iv) strengthen the in-year monitoring system for revenue and expenditure; and (v) promulgate and start to implement the PFM Bill that embraces concepts designed to address root causes of fiduciary risk, such as the far stronger and explicit accountability arrangements for controlling officers and the expression of their general fiduciary responsibilities.

More systemic PFM reforms over the medium to longer term could include – (i) introduction of a robust medium term fiscal framework, supported by reliable forecasting models and data; (ii) tax administration reforms; (iii) debt management reforms, (iv) continued enhancement of procurement reforms, (v) financial system, reporting and auditing reforms, and (vi) enhanced donor coordination.

4. Prospects for reform planning and implementation

Compared to previous PFM assessments and recommendation, progress as evidenced in this assessment has been slow. Several reasons contribute to this including lack of an approved PFM action plan with clear leadership, weak implementation capacity, weak coordination and inadequate change management. This has been detrimental and needs to be addressed in order to manage existing fiscal pressures and to provide a platform for more constructive donor engagements.

For the successful implementation of the reform program, the buy-in and involvement of stakeholders in the PFM system is crucial. We believe that the necessary conditions exist at this time for the implementation of such a reform program.

We recommend that the Government embrace a reform program anchored in the following critical success factors - (i) visible and active political and top management support for reforms; (ii) government ownership of the reform process; (iii) careful sequencing; (iv) change management towards new methods/systems and good PFM practices; (v) technical assistance as needed; and (vi) sufficient physical and human resource capacities.

2009 - Summary of PFM Performance Indicators Scores[1]

	PFM Performance Indicator	Scoring Method[2]	Dimension Ratings[3]				Overall Rating	2007 Scores
			i	ii	iii	iv		
	A. PFM-OUT-TURNS: Credibility of the budget							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	A				**A**	**A**
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	C				**C**	**D**
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	C				**C**	**A**
PI-4	Stock and monitoring of expenditure payment arrears	M1	NS	D			**NS**	**D+**
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	B				**B**	**B**
PI-6	Comprehensiveness of information included in budget documentation	M1	A				**A**	**B**
PI-7	Extent of unreported government operations	M1	A	D			**D+**	**D+**
PI-8	Transparency of inter-governmental fiscal relations	M2	A	B	D		**B**	**C**
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	C			**C**	**C**
PI-10	Public access to key fiscal information	M1	B				**B**	**C**
	C. BUDGET CYCLE							
	C(i) Policy-Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	C	C	A		**B**	**C+**
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C	D	D	C	**D+**	**D+**
	C(ii) Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	C	B	C		**C+**	**B**
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	D	C	D		**D+**	**D+**
PI-15	Effectiveness in collection of tax payments	M1	NS	B	D		**NS**	**NS**
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	D	B	C		**D+**	**D+**
PI-17	Recording and management of cash balances, debt and guarantees	M2	C	C	B		**C+**	**C**
PI-18	Effectiveness of payroll controls	M1	D	D	A	D	**D+**	**C+**

[1] The measurement of the scores in this annex follows closely the PEFA Guidelines (see www.pefa.org for a description of the calibration of scores for each indicator). For indicators with more than one dimension, a separate score is given for each dimension, and the overall score for the indicator is shown in bold as an "overall rating" following the prescribed scoring methodology.

[2] Scoring method M1 is used for indicators where poor performance on one dimension of the indicator is likely to undermine the impact of good performance of other dimensions of the same indicator. Scoring method M2 is used where a low score on one dimension of the indicator does not necessary undermine the impact of a high score on another dimension of the same indicator.

[3] Each indicator includes one or more dimensions. A separate score is given for each dimension. Where there is more than one dimension, the overall score for the indicator is arrived at by combining the dimension ratings according to the prescribed methodology (M1 or M2) for the indicator.

PFM Performance Indicator		Scoring Method[2]	Dimension Ratings[3]				Overall Rating	2007 Scores
			i	ii	iii	iv		
PI-19	Competition, value for money and controls in procurement	M2	A	C	D		**C+**	**D+**
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	D	D	C		**D+**	**D+**
PI-21	Effectiveness of internal audit	M1	D	D	D		**D**	**D+**
	C(iii) Accounting, Recording and Reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	D	D			**D**	**D**
PI-23	Availability of information on resources received by service delivery units	M1	D				**D**	**NS**
PI-24	Quality and timeliness of in-year budget reports	M1	C	A	C		**C+**	**D**
PI-25	Quality and timeliness of annual financial statements	M1	C	A	C		**C+**	**D+**
	C(iv) External Scrutiny and Audit							
PI-26	Scope, nature and follow-up of external audit	M1	C	C	C		**C**	**D+**
PI-27	Legislative scrutiny of the annual budget law	M1	C	B	B	B	**C+**	**D+**
PI-28	Legislative scrutiny of external audit reports	M1	B	A	B		**B+**	**C+**
	D. DONOR PRACTICES							
D-1	Predictability of Direct Budget Support	M1					**NS**	**NS**
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1					**NS**	**NS**
D-3	Proportion of aid that is managed by use of national procedures	M1					**NS**	**NS**

1. Introduction

1.1 Background to the Assessment

1.1.1 The Kingdom of Swaziland and the World Bank completed a diagnostic study of Swaziland's public expenditure management system in 2006, with the publication of a Public Expenditure Review (PER). The main conclusion on public expenditure management was that their processes suffered from systemic weaknesses in most critical stages of the budget cycle. Specific areas identified for improvement were management of commitments and monitoring of arrears; comprehensiveness of the budget; tax collection; payroll controls; internal and external audits; and quality of reporting. Another key finding of the report was that limited capacity at all levels of government is also a significant factor behind the poor policy performance. The report outlined a number of highly specific recommendations against a specific timetable with institutional responsibilities to address improvement in budget preparation; budget execution; reporting and transparency; and coordination with external donors.

1.1.2 The EC, as part of its 2007 Annual Operational Review, also published a PEFA Public Finance Management Performance Report early in January 2007. The key findings of this diagnostic study also confirmed that the PFM system performance did not support the achievement and maintenance of aggregate fiscal discipline and the strategic allocations of resources in a satisfactory manner. It also concluded that the budget was only partially credible, not comprehensive and transparent enough and only to some extent policy-based. Internal control, public procurement, as well as internal and external audit systems (and data accuracy) were again identified as areas of serious concern, far from meeting standards of good practice and under-performing in terms of outcomes achieved. As a result, serious doubts were expressed on the ability of these systems to ensure efficiency in service delivery and to achieve other PFM objectives, such as fiscal discipline and strategic allocation of resources.

1.1.3 The Article 4 Consultation by the IMF[4], finalised in October 2008, also concluded that *"improvement in public expenditure management and assurance that spending is of high quality is crucial to successful fiscal adjustment"*. It identified poor coordination of budget execution across government agencies, resulting in under-spending for some, arrears for others, and frequent supplementary budgets as key weaknesses in budget credibility.

1.1.4 Based on the above, there was a need to assist the government to plan on reforms that would address the identified PFM risks.

1.2 Purpose of the assessment

1.2.1 The objective of this assessment was to identify key PFM risks and mitigating actions (reforms) that the Government should plan and implement, in consultation with development partners. The agreed PFM reform programme would endeavour to mitigate key risks in achieving aggregate fiscal discipline, efficient resource allocation, and efficient and effective delivery of public services (development purpose) and accountability. In addition, it will attempt to establish a level of fiduciary assurance for donors that funds will be applied for their intended purpose with economy, efficiency and effectiveness (fiduciary purpose).

[4] 2008 IMF Country Report No 356, October 2008

1.3 Scope of Work and Methodology

1.3.1 The assessment team used the PEFA PFM Measurement Framework and applied the framework guidance to assess the status and key risks in the following PFM dimensions - (i) credibility of the budget; (ii) comprehensiveness and transparency of the budget and fiscal risk oversight; (iii) policy-based budgeting; (iv) predictability and control in budget execution including procurement; (v) adequate accounting, recording and reporting; and (vi) effective external scrutiny and audit arrangements. In performing the assessment, the team considered the 2006 PER report, 2007 PEFA report and 2008 IMF Article 4 Consultation report. Based on the results of the assessment, the team suggested key risk mitigation actions that may be implemented as reforms to address the identified key PFM risks.

1.3.2 The assessment focused on PFM systems in Central Government for the financial periods 2005/6, 2006/7 and 2007/8 and the budget process for 2009/10.

1.3.3 As part of the assessment, the team undertook the following activities:

- Hosted a workshop with government officials to share the purpose and the objective of the assessment; the assessment methodology i.e. PEFA PFM Measurement Framework; as well as expected deliverables and timetable.
- Held one-on-one meetings with specific officials to inform them of the assessment indicators pertaining to their specific areas of expertise and information required from them.
- Prepared a list of required information which was submitted to appropriate officials to collate and submit to the PEFA team.
- Interviewed and held group discussions with relevant stakeholders and officials.
- Reviewed relevant documents;
- Held discussions with development partners;
- Sourced input from government on the draft report;
- Hosted a workshop to discuss findings and their implications for the PFM Reform Programme; and
- Held a final stakeholder meeting to discuss the assessment's results and proposed PFM Reform program.

1.3.4 The remainder of this report contains background information on PFM in Swaziland (Section 2), an explanation of the scores for individual performance indicators (Section 3), key risks and recommended mitigating actions / reforms (Section 4) and a summary description of the government's reform programme (Section 5). Annexes include - the summary of the performance indicator scores (Annex A); a comparison of the results from the 2007 assessment with 2009 (Annex B); the calculation of deviations by budget head for the period 2006-2008 (Annex C); the list of sources used for each indicator (Annex D); the list of participants met during the CIFA assessment meetings (Annex E); the proposed new PFM Bill (Annex F) and a document reference list (Annex G).

2 Background

2.1 Key governance and economic indicators

2.1.1 Swaziland is a small landlocked country of about 1 million inhabitants, with a 2008 GDP per capita of about US$2,241 - placing it in the ranks of lower Middle Income Countries (MICs). However, its social indicators point to poverty levels that are more consistent with low income countries. Swaziland has a high unequal income gap (Gini coefficient is 0.60, on a par with Angola and Brazil), compounded by low growth rates.

2.1.2 Swaziland is an African monarchy. King Mswati III was crowned in April 1986 and a new constitution was ratified by the King on July 26, 2005, which became effective on February 8, 2006[5].

2.1.3 According to the widely used World Bank Institute (Kaufmann-Kraay) methodology for measuring and monitoring governance across countries and over time, Swaziland's governance is perceived as weak in several key dimensions. Relative to other SACU countries, Swaziland ranks amongst the lowest in "government effectiveness", "rule of law", "regulatory quality", "voice and accountability" and "control of corruption". Trends over the past 5 years do not signal a general improvement in perceptions.

2.1.4 As Swaziland recovered from the 2006 drought, real GDP growth in 2007 rose to 3.5% from 2.9% in 2006, but saw a decline in 2008, to 2.4%, as the global recession impacted developing economies: low investments and a slow pace of economic reforms. Projections for 2009 indicate that GDP growth is expected to remain slightly positive at 0.4 percent. As a result of higher food and fuel prices inflation escalated and was at 13.4% at the end of July 2008, compared to 9.8% at the end of 2007. Inflation has declined to 11.7 percent in June 2009 (year-on-year) and is expected to fall further as oil and food price pressures subside. It is projected to fall to just below 8 percent for year 2009 as a whole. Recent global surges in commodity prices, inflation and the economic slowdown increase risks to (weaken) the Swazi economy, which is based largely on agriculture and the agro-industry.

2.1.5 Swaziland further faces high levels of poverty and unemployment, a situation worsened by the high prevalence of HIV/AIDS[6], labour force absenteeism, and low productivity. The unemployment rate is about 30%[7]. Life expectancy is just over 31 years; and preliminary figures of the 2007 census indicate that the population is less than 1 million (lower than the projected headcount of 1.1 million). The impact of the HIV/AIDS epidemic is likely to reinforce a trend of worsening poverty levels.

2.1.6 There is broad consensus and concern that the existing growth rate is largely due to the larger than expected SACU windfall revenue (57% percent of the central government resource base for year 2007/8), and is not sustainable without higher investment rates. Contrary to IMF expectations and because of an unexpected surge of SACU revenue (up from a forecast of 20 percent to an average of 25 percent of GDP), the Government has enjoyed budget surpluses. This appears to have weakened the Government's resolve to reform its expenditure management. However, the current recession, new trade dispensations, the revision of the revenue sharing formula and the establishment of the planned Custom Union in 2010 by the Southern African Development Community (SADC) threaten future flow of SACU revenue. The challenge puts pressure on government to expand its revenue base and enhance/tighten expenditure controls. The budget deficit as percentage of GDP is expected to increase from 5.4 percent of GDP in 2008 to 13% in 2010/11.

[5] The Constitution of the Kingdom of Swaziland, 26 July 2005

[6] Swaziland has one of the highest HIV/AIDS prevalence rates in the world More than 42% according to NERCHA, a level at which the epidemic is difficult to contain.

[7] World Bank, Swaziland Public Expenditure Review August 2006.

2.2 Selected budgetary outcomes

2.2.1 Revenue, excluding grants, as a percentage of GDP has increased from 30.4 % to 39.3% in period 2006 – 2009. This is mainly due to increased SACU revenue over the period (from E 2.7 billion in 2005/6 to E 4.59 billion in 2007/8) and sales tax (from E 616 million in 2005/6 to E 974 million in 2007/8). Income tax increased from E 1.27 billion in 2006 to E 1.65 billion in 2008, which translates to compound growth of 14%. On the other hand, total expenditure as percentage of GDP has increased from 33.9% to 41.5% in 2008/9, mainly due to increases in salaries and wages (police were awarded 25% increase in salaries during the period).

Table 1: Central Government Budget (in percent of GDP)

	2005/06	2006/07	2007/08	2008/09
TOTAL REVENUE & GRANTS				
Own Revenue	30.4%	40.6%	37.1%	39.3%
Grants	1.0%	0.9%	0.9%	1.1%
TOTAL EXPENDITURE	33.9%	31.6%	34.3%	41.5%
Current expenditure of which:	25.7%	24.2%	25.1%	31.7%
Wages and Salaries	14.2%	13.4%	12.9%	17.0%
Interest	1.1%	0.8%	0.9%	1.0%
Aggregate Deficit	-2.1%	10.1%	3.7%	-1.0%
Net Financing	1.9%	-10.1%	-3.7%	2.4%
External	1.2%	0.7%	0.5%	0.7%
Domestic	0.7%	-10.8%	-4.2%	1.7%

Source: Ministry of Economic Planning and Development

2.2.2 Education and Training continue to be allocated a large portion of the budget (average of 17% in the three years), whilst the allocation to Health was between 5.8% and 6.7%.

Table 2: Actual budgetary allocations for sectors and economic categories
(in % of total)

I. MAIN SECTORS	**2005/06**	**2006/07**	**2007/08**
Agriculture, Forestry & Fisheries	4.0%	3.7%	3.8%
Education & Training	18.7%	16.4%	15.7%
General Public Service	35.6%	39.7%	42.4%
Health	6.7%	5.8%	5.8%
Public Order & Safety	12.3%	12.6%	12.6%
Transport & Communication	9.3%	7.5%	6.6%
Other	13.4%	14.2%	13.0%
TOTAL ALL SECTORS	100.0%	100.0%	100.0%

II. MAIN ECONOMIC CATEGORIES	2005/06	2006/07	2007/08
Wages & salaries	31.7%	28.2%	29.6%
Debt service payments	4.3%	5.0%	2.2%
Capital expenditures	25.3%	21.3%	23.6%
Other	38.7%	45.5%	44.5%
Total	100.0%	100.0%	100.0%

Source: Calculations based on data from Budget Estimates & Treasury Annual Reports

2.3 Legal framework for PFM

2.3.1 The legal framework that governs the management and control of public finances in Swaziland consists of the Constitution 2005, The Finance and Audit Act, 1967, Financial and Accounting Instructions of 1970, Financial Management and Accounting Procedures, Audit Act, 2005, Public Enterprises Act and the Procurement Regulations.

2.3.2 The roles of the executive, legislature and judicial branches of government are clearly set out in the Constitution.

2.3.3 Chapter XI of the Constitution deals with public finances (articles 198 – 209). The articles include provisions on the Consolidated Fund, Contingency Fund; the Appropriation Act and Supplementary Estimates; power to borrow or lend; the public debt; Auditor-General – external audit of public finance and the Finance and Public Accounts committee in the House of Assembly.

2.3.4 The Finance and Audit Act[8] provides for the control and management of public funds. The Financial and Accounting Instructions of 1970 provide specific guidance on application of the provisions of the Finance and Audit Act, 1967. In particular, they include provisions on budget preparation, implementation and control. A manual for Financial Management and Accounting Procedures Manual that compliments the Act, 1967 and Instructions, 1970 were issued in 1993. It stipulates the accounting policies and procedures adopted within the Treasury Department and Finance sections in line ministries.

2.3.5 The Audit Act, 2005 is the legislative framework for the Auditor-General. The Act stipulates the role (mandate) of the Office of the Auditor-General, appointment of the Auditor-General and operating and reporting procedures.

2.3.6 The Public Enterprises (Control and Monitoring) Act of 1989 establishes an operational framework for the corporate governance of the public enterprise sector. It provides for the categories, the control and monitoring of public enterprises and partly owned enterprises.

2.3.7 The Procurement Regulations, 2008, stipulate the Institutional framework for procurement in the public sector of the Kingdom of Swaziland.

2.3.8 Currently, a Public Finance Management Bill (Annex F) has been developed (with technical support from the World Bank and funded by UNDP) with an overall aim to improve financial management, accountability and transparency (of public finances). In addition, a Procurement Bill is being developed and the Audit Act, 2005 and Public Enterprises Bill are being revised.

[8] The Finance and Audit Act of 1967 (Amended in April 1992)

2.4 The institutional framework for PFM

The Executive

2.4.1 The King is the head of state. The King appoints a Prime Minister, who heads the Cabinet, for a term period of five years. The King also appoints the Deputy Prime Minister and selects Cabinet Ministers and Deputy Ministers from among the Members of the House of Assembly and the Senate. The Cabinet Ministers head ministerial portfolios. In addition, Principal Secretaries (PSs) are appointed by the King as the most senior civil servants in each ministry - they are the expenditure warrant holders and accounting officers. PSs are appointed upon recommendation by the Civil Service Commission on renewable contracts for a term of five years. Reporting to the PSs are Directors.

2.4.2 The Ministry of Finance is in charge of managing the economy, treasury, cash resources, external and internal debt and coordinating the national Annual Budget.

2.4.3 The Office of the Auditor-General performs PFM oversight functions and reports to Parliament through the Minister of Finance.

Legislative

2.4.4 The Kingdom of Swaziland has both a House of Assembly and a Senate: a bicameral system of Government termed as Parliament in this report. The House of Assembly consists of no more than seventy-six members composed as follows - not more than sixty members elected from "Tinkhundla"[9] areas serving as constituencies; not more than ten members nominated by the King acting in his discretion after consultation with such bodies as the King may deem appropriate; four female members specially elected from the four Regions, and the Attorney General who shall be an ex-officio member. The Senate consists of not more than thirty one members elected or appointed as follows: ten Senators, at least half of whom shall be female, elected by the members of the House; twenty Senators, at least eight of whom shall be female, appointed by the King.

2.4.5 The role of the Parliament of the Kingdom of Swaziland is to initiate, consider and enact legislation and monitor its implementation in the interests and welfare of the King and the People of Swaziland. Parliament provides the supreme forum for critical examination of government activities, including the monitoring of public funds and the conduct of public business. The Constitution indicates that a legislature will last for a period of five years less two months from the date of the first meeting of the House following a general election.

2.4.6 Select committees or ad hoc committees are appointed by Parliament from time to time to deal with specific issues such as inquiries on certain conduct of the executive, or allegations of misconduct amongst members of parliament. Swaziland's Parliament has two types of committees: Portfolio (i.e. department-specific in scope and investigative in nature); and Sessional (i.e. thematic) committees. Portfolio Committees track the work of the different Government Ministries and Offices.

Government Institutions

Ministries

2.4.7 There are 19 Ministries besides the Prime Minister's and Deputy Prime Minister's offices[10]. The ministries are responsible of fulfilling the government responsibilities as set out in the constitution.

[9] The *Tinkhundla* is a main administrative unit in the traditional structure of government, and comprises between 5 and 20 chiefdoms.

[10] Legal notice no 25 of 2009: Government Gazette dated February 25, 2009

Public Enterprises

2.4.8 The Public Enterprises Act provides for the categories, the control and monitoring of public enterprises and partly (publically) owned enterprises. It establishes an operational framework for the corporate governance of the public enterprise sector in the Kingdom of Swaziland.

2.4.9 Based on the most recent Swazi Government list and definition of Public Enterprises (PEs), there 48 such enterprises. PEs are divided into two categories:

- **Category A** is the most important one and currently includes 33 PEs. The government owns 100% of the category A PEs, or has a majority interest in them or subsidizes them (financial support). The categories include both profit and non-profit making entities.
- **Category B** includes 15 enterprises. Category B entities are the ones where the Government has minority interest or which monitors other financial institutions or which is a local government authority (SNG). Examples of Category B PEs include the Central Bank, the two SNG entities of Mbabane and Manzini, big financial institutions such as the Standard Bank of Swaziland and Nedbank of Swaziland. The Public Service Pension Fund (PSPF) is in this category as well.2.4.10 The Public Enterprise Act also provides for a Public Enterprise Unit (PEU) to monitor the performance of Category A PEs and to provide technical advice on their operational and policy management. A Cabinet Standing Committee on Public Enterprises (SCOPE) reviews quarterly financial and operational reports provided by the PEU.

2.4.11 Table 3 presents the flow of funds for the most subsidized entities:

Table 3: Flow of funds from the Central Government to selected PEs

Public Enterprise	2008/09	2007/08	2006/07
Swaziland Water Development Enterprise	10,398,240	9,628,000	13,170,000
Swaziland Investment Promotion Authority	6,172,324	5,557,004	5,235,500
Small Enterprises Development Company	7,783,000	4,000,000	3,654,600
Swaziland Standards Authority	4,306,880	2,945,021	1,000,000
University of Swaziland	207,954,000	137,550,000	130,657,400
Swaziland Revenue Authority	20,000,000	5,000,000	-
Registrar of Insurance	5,500,000	5,000,000	-
Motor Vehicle Accident Fund	9,000,000	9,000,000	9,000,000
Swaziland Television Authority	14,570,000	22,570,700	13,235,412
Swaziland Post Telecommunication	84,000,000	-	-
Releigh Fitkin Memorial Hospital	47,365,992	43,857,400	33,857,400
Conciliation, Mediation and Arbitration Commission	9,983,995	9,244,440	5,810,941
Swaziland National Trust Commission	18,020,362	12,957,125	11,858,772
Swaziland Tourism Authority	8,167,800	6,835,000	3,835,000
Swaziland Environmental Authority	8,974,583	3,000,000	1,500,000
Swaziland Cotton Board	1,000,000	1,000,000	1,000,000
Sebenta National Institute	3,267,519	3,025,481	2,881,412
Good Shepherd Hospital	33,453,600	30,975,562	14,664,600
Total	**499,918,295**	**312,145,733**	**251,361,037**

Local Government

2.4.12 Decentralization in the Kingdom of Swaziland is contemplated in the Constitution. Basically, "Parliament shall within five years of the commencement of this Constitution provide for the establishment of a single countrywide system of local government, which is based on the *tinkhundla* system of government, hierarchically organized according to the volume or complexity of service rendered and integrated so as to avoid the urban/rural dichotomy". The Constitution also gives power to local governments to raise revenue (Art.222).

2.4.13 Right now the Urban Government Act of 1969 is the existing legislative reference framework for local government or sub national (SN) government.

2.4.14 At the time, the only SN government are elected City Councils, Town Councils, and Town Boards which are accountable to their electorate. There are 2 City Councils, 3 Town Councils, and 7 Town Boards. Currently the 12 SN governments receive a subsidy from the Central Government. The subsidy amounted to E 15.7million in 2005/6 and E 15.8 million for both 2006/7 and 2007/8. The 2 City Councils (Mbabane and Manzini) account for 49.7% of the total subvention.

Table 4: Central Government subsidies to sub national governments

	2005/06	2006/07	2007/08
Mbabane City Council	3,288,000	3,288,000	3,288,000
Manzini City Council	4,540,000	4,540,000	4,540,000
Nhlangano Town Council	790,000	790,000	790,000
Piggs Peak Town Council	700,000	700,000	700,000
Siteki Town Council	700,000	700,000	700,000
Ezulwini Town Board	970,000	970,000	970,000
Mankayane Town Board	565,000	565,000	565,000
Hlathikhulu Town Board	601,000	601,000	601,000
Lavumisa Town Board	565,000	565,000	565,000
Ngwenya Town Board	556,000	556,000	556,000
Vuvulane Town Board	700,000	700,000	700,000
Matsapha Town Board	1,510,000	1,510,000	1,510,000
New Towns	243,316	353,900	353,900
TOTAL	**15,728,316**	**15,838,900**	**15,838,900**

Source: Budget Estimates MOF

2.4.15 The town councils and boards prepare their own budget, which is reviewed and approved by the Ministry of Housing and Urban Development. The budget data and actual performance of town councils and boards are not consolidated with budget data and financial statements of the Central Government. However, the performance information is submitted to the Ministry of Housing and Urban Development - there was no evidence that the Ministry regularly reviews the reports besides annual monitoring of fiscal position of each council and board. In additions, audits are done by private audit firms as it is not a requirement for Auditor-General to audit the councils and boards.

3. Assessment of PFM System, Processes and Institutions[11]

3.1 Overview of the PFM system

3.1.1 The budget process begins with a 'Budget Outlook Paper' prepared and presented to Cabinet by the Ministry of Finance in conjunction with the Ministry of Economic Planning. This paper sets the economic outlook for the following year and government funding ceilings flowing from there. Every other year the Minister for Finance also prepares a 'Policy Statement' at the same time which is also submitted to Cabinet. The policy statement is subsequently published in the local print media for comments from the public. A series of workshops with various groups such as civic organizations, NGO,s and Members of Parliament are then held to discuss the policy statement further. This process normally takes place around September to October.

3.1.2 From the Budget Outlook Paper the Ministry of Finance issues 'Call Circulars" to the various government ministries/agencies inviting detailed budget submissions to be made. This would be between October/November. Between December and January a working group made up of the three central agencies, which are the Ministries of Finance, Economic Planning, and Public Service, invites the different ministries/agencies for discussions on their submissions. This working group, generally known as the PBC (Public Budget Committee), is guided by the approved ceilings from the budget outlook paper. After agreement between these agencies the full draft budget is then submitted to Cabinet for approval.

3.1.3 By mid-February parliament reconvenes and the Minister of Finance presents the budget. Deliberations/debate on the budget are usually concluded by the end of March and the Appropriation Act is promulgated, ready for the start of implementation on the 1st of April.

3.1.4 Budget implementation starts with the Minister for Finance issuing a 'General Warrant of Expenditure' to the Accountant General authorizing expenditure under the various ministries/agencies. The Accountant General then issues 'Treasury Warrants' to each controlling officer detailing their authority under each department. These warrants are more detailed in terms of items of expenditure under the departments of each controlling officer. They are currently issued on a quarterly basis in line with cash flow projections. Controlling Officers are free to then appoint 'Warrant Holders' under their various departments but maintain overall accountability. These warrant holders are the designated signatories to orders for goods and services and subsequent payments.

3.1.5 The Regulations establish a Swaziland National Tender Board, although this is not yet in place and the (previous) Central Tender Board remains and considers submissions over E400,000 for goods and services and all works submissions. Similarly, the Treasury Tender Board remains and considers a limited range of submissions, primarily those tendered on an annual basis. All Treasury Tender Board awards are subject to review by the Principal Secretary, Ministry of Finance who is also Chair of the Central Tender Board. This ensures consistency between the two Boards. Applications for the approval of procurement below E400,000 for goods and services and not being awarded on an annual basis, are subject to approval by the Ministry of Finance.

3.1.6 Staffing and control of the staff complement is done under MOPS. Payroll documents flow from MDAs to MOPS who capture the employee details onto the payroll system. Treasury is

[11] The measurement of the scores in this section follows the PEFA Guidelines (see www.pefa.org for a description of the calibration of scores for each indicator). For indicators with more than one dimension, a separate score is given for each dimension, and the overall score for the indicator is shown in bold and box-framed.

responsible for checking/calculation of all payroll payments and capturing into the payroll system.

3.1.7 Payments are centralized in the Treasury Department who also look after all government bank accounts. Capturing of payments into a government IFMS is decentralized but checking of the payments, printing of cheques or electronic payments and signing is centralized at the Treasury. Salary payments are also centralized at the Treasury. Due to the centralized nature of the payments, keeping of most accounting records in government is done by the Treasury. The responsibility for reconciling most of the accounts though is the responsibility of the ministries/agencies as the originators of the transactions.

3.1.8 Each year the Treasury prepares various statements of account as specified in the Finance Management Act for Audit by the Auditor General. The accounts must be submitted for audit on or before 30th September of the following year i.e. 6 months after close of the financial year.

3.1.9 The audited accounts together with the audit report are ready by the 31st of December i.e. 9 months after the close of the financial year. Both reports are tabled before parliament by the Minister for Finance during the presentation of the budget in February i.e. 11th months after close. After conclusion of the budget debates the parliamentary Public Accounts Committee (PAC) begins to sit and consider the accounts and the audit report. This is usually in April.

3.2 Budget Credibility

3.2.1 The government's budget is credible if it is realistic and implemented in accordance with the estimates approved by Parliament at the beginning of the financial year. To ascertain the extent to which this is the case, the assessment focused on (i) a comparison of outturns against the original budget over the past three years (2006-2008), and also on (ii) analysing the variance in the composition of primary expenditures across heads.

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

3.2.2 Tables 5 and 6 below show a comparison of expenditure against the approved budgets for the years 2006 – 2008. The expenditure does not include externally funded projects. The average variance between actual expenditure and the original budgeted amount was below 5% during the 3 years. In essence, it indicates that the budget as approved by Parliament was a reasonably accurate estimate of overall actual expenditure. A comparison with the 2007 PEFA reveals an improvement in performance for aggregated expenditure out-turns.

Table 5: Actual expenditure deviation from the original budget

Year	for PI-1 Total expenditure deviation	Total expenditure variance[12]	for PI-2 Variance in excess of total deviation
2005/06	0.3%	9.7%	9.4%
2006/07	3.3%	11.5%	8.2%
2007/08	4.1%	8.4%	4.3%

Source: Calculations Based on Treasury Annual Reports; Budget Estimates, MOF

12 The deviation between budgeted amounts and actual out-turns by budget head

Table 6: Comparison of Original Budgeted and Actual Primary Expenditures			
	2006	**2007**	**2008**
Budgeted primary expenditure (E billion)	5.176	5.487	6.876
Actual primary expenditure (E billion)	5.159	5.306	6.594
Difference between actual & budgeted expenditure (E billion)	0.017	0.180	0.282
Difference as % of budgeted expenditure (%)	0.3%	3.3%	4.1%
Source: Treasury Annual Reports and Budget Estimates, MoF			

3.2.3 There is concern about the accuracy and adequacy of the data. The budgeted amounts presented in the annual budget estimates and the Treasury Annual Reports did not always reconcile. The Treasury Annual Report only presents the capital budget out-turns by functional classification, whereas the recurrent out-turn is by economic classification. There are further concerns that loan proceeds disbursed directly to fund some capital expenditures are only recorded at the end of the year rather than when they occur.

PI-2: Composition of expenditure out-turn compared to original approved budget

3.2.4 The deviation between budgeted amounts and actual out-turns by budget head was between 8.4% and 11.5% as indicated in Table 5 above. The outcomes indicate that the budget heads received resources as originally planned. The variance was high in periods 2003/04, 2004/5 and 2005/6 (calculated using functional classification) - 63.2%, 21.94% and 14.72% respectively. The improvement, which is in line with improvements in budget performance for aggregate expenditure, may indicate more sustained financing of agreed government programs. However, while there was no overrun in overall budget per head, there is always over expenditure in recurrent expenditure and under expenditure in capital expenditure - an aspect that raises concern that low capital spending is likely to negatively impact on future economic development. There is a need to execute all planned capital spending in line with the government capital development agenda. Over expenditure in recurrent expenses are due to weaknesses in expenditure discipline and controls and lack of full implementation of the commitment system – manual orders are raised outside of the system and unsupported payments for example salaries and utilities, are outside of the commitment system (PI-16). Therefore, to achieve a better rating, there is need for the Government to improve the allocation of resources during the execution phase, execute planned capital projects timely and to enhance expenditure controls.

PI-3: Aggregate revenue out-turn compared to original approved budget

3.2.5 Table 7 below compares actual revenue receipts with the original budget estimates over the three year period under review. The comparison gives an indication of the quality of revenue forecasts. The actual revenue collections were more than those estimated for the first two years under review and 89.3% of the estimate in year 2007/8, mainly due to variances in actual SACU revenues.

Table 7: Revenue			
	2005/06	**2006/07**	**2007/08**
Budget estimate	4,985,184,006	6,414,449,000	8,898,098,206
Actual revenue	5,581,902,830	7,872,007,376	7,947,577,895
Variance	111.97%	122.72%	89.32%
Actual SACU revenue	2,794,000,000	3,653,000,000	4,591,000,000

Source:
The estimate figures are extracted from the Estimates book of the MOF.
Actual revenue sourced from the Treasury Annual Reports

PI-4: Stock and monitoring of expenditure payment arrears

3.2.6 There are no systematic policies, procedures and systems for recording and reporting payment arrears. Without such a record, it is difficult to estimate the extent of payment arrears. According to an IMF study, the stock of government arrears had reached 2.0% of GDP in 2004/05 which corresponded to about 5.95% of the total expenditures for that year – this information was used to evaluate the indicator in 2007.

Indicator	Score	Brief Explanation
A. Credibility of the Budget		
PI-1. Aggregate expenditure out-turn compared to original approved budget	**A**	In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure: 2006: 0.3% 2007: 3.3% 2008: 4.1%
PI-2. Composition of expenditure out-turn compared to original approved budget	**C**	Over the last 3 years, the variance of primary expenditure across budget years were: 2006: 9.4% 2007: 8.2% 2008: 4.3%
PI-3. Aggregate revenue out-turn compared to original approved budget	**C**	Over the last three years, actual revenue as a % of budget estimates were: 2006: 111.97% 2007: 122.72% 2008: 89.32%
PI-4. Stock and monitoring of expenditure payment arrears.	**NS**	
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	**NS**	There is no system to record stock of expenditure arrears.
(ii) Availability of data for monitoring the stock of expenditure payment arrears	**D**	There is no system to record and monitor stock of expenditure arrears.

Conclusion

Overall, the actual budget spending for the three year period was almost similar to the budgeted amounts. However, while there were no major overruns in overall individual budget heads, it is evident that there was overspending in recurrent expenditures and under spending in capital expenditures. The outcome raises concern of low capital spending, which has a direct impact on future capital developments, and point to weaknesses in expenditure controls. In addition, expenditure monitoring systems are non-existent and the commitment system is not fully and effectively used resulting to accumulation of expenditure arrears. There were over collections in cumulative budgeted revenue during the period mainly due to higher allocations of SACU revenue.

3.3 Transparency and Comprehensiveness

PI-5: Classification of the budget

3.3.1 The recurrent budget formulation follows the GFS economic classification and uses 14 COFOG functions. There was a rearrangement of heads (votes) during the 2008/09 financial year, which has required the addition of 6 new heads, making a total of 39. Each head has several activities and each activity several items.

3.3.2 The capital budget uses 13 COFOG functions, and the same economic classification. It is also classified by head and activity, one of which is a project reference.

Indicator	Score	Brief Explanation
B. Comprehensiveness and Transparency		
PI-5. Classification of the budget.	**B**	Budget formulation follows GFS standards and uses 14 and 13 COFOG functions for recurrent and capital budgets respectively

PI-6: Comprehensiveness of budget documentation

3.3.3 The annual budget documentation (the annual budget and budget supporting documents), as submitted to the Parliament for scrutiny and approval, should allow a complete picture of central government fiscal forecasts, budget proposals and out-turns of previous years.

3.3.4 The MoF continually endeavours to provide sufficient information to Parliament to support the budget. The annual budget documentation includes the MTBPS, the Estimates of Expenditure, the Budget Speech and the Appropriation Bill. Taken together, these documents include the following information:

- Macro-economic assumptions, including estimates of aggregate growth, inflation and exchange rate;
- Fiscal deficit;
- Deficit financing, describing anticipated composition;
- Debt stock, including details at least for the beginning of the current year;
- Prior year’s budget outturn, presented in the same format as the budget proposal;
- Current year’s budget (the estimated outturn), presented in the same format as the budget proposal;
- Summarized budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year;

- Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.

3.3.5 The only item from the list of benchmarks that is not disclosed is data related to Financial Assets. In the 2007 PEFA assessment, this indicator achieved a B rating. The budget documentation relating to macroeconomic assumptions, data on the debt stock, data on financial assets and explanation of budget implications of new policy initiatives were not being submitted to Parliament.

Indicator	**Score**	**Brief Explanation**
PI-6. Comprehensiveness of information included in budget documentation.	**A**	The budget documents fulfils 8 of the 9 information benchmarks

PI-7: Extent of unreported government operations

3.3.6 Annual budget estimates, in-year execution reports, year-end financial statements and other fiscal reports for the public, should cover all budgetary and extra-budgetary activities of central government to allow a complete picture of central government revenue, expenditures across all categories, and financing.

3.3.7 There are no unreported extra-budgetary expenditures (other than donor funded projects) in the Central Government.. Public enterprises are subject to the Public Enterprises Act which provides for their reporting and monitoring by the Public Enterprise Unit.

3.3.8 Income and expenditure data (both estimates and actual) on donor financed projects held by the Treasury are not reconciled to other information sources, such as data from donors or the External Assistance Unit in the MEDP. Hence, it is difficult to confirm its accuracy and completeness. There is a consultancy exercise underway to ensure this information is determined and clarified.

Indicator	**Score**	**Brief Explanation**
PI-7. Extent of unreported government operations	**D+**	
(i) Level of unreported extra-budgetary expenditure	*A*	There are no extra-budgetary expenditures (other than donor-funded projects) in the Central Government.
(ii) Income/expenditure information on donor-funded projects	*D*	Income and expenditure data (both estimates and actual) on donor financed projects provided by the Treasury are not reconciled to other information sources and therefore it is difficult to confirm its accuracy and completeness.

PI-8: Inter-governmental fiscal relations

3.3.9 The horizontal allocation of an unconditional grant for recurrent expenditures to Town Councils and Boards is determined by a fixed amount of E 500,000 plus a formula based on the population.

3.3.10 Final transfers are known when the National Budget is approved, usually in March – one month before the new financial year begins. The Town Councils and Boards normally have certainty that the transfer amount will not be less than the previous year's allocation, and while this may represent a decline in real terms, they are able to budget accordingly.

3.3.11 Town Councils and Boards are obliged to forward annual audited financial statements to both the Ministry of Finance and the Ministry of Housing and Urban Development. The aggregate transfers received are consolidated as a single figure in the Treasury Annual Report for the Ministry of Housing and Urban Development, which is normally produced within 6 months of the year end. However, there is neither a sectoral breakdown of this expenditure nor consolidation of other fiscal data relation relating to SN. There has been no change in the fiscal relations process from the previous PEFA assessment.

Indicator	Score	Brief Explanation
PI-8. Transparency of Inter-Governmental Fiscal Relations	**B**	
(i) Transparency and objectivity in the horizontal allocation amongst Sub National Governments	*A*	The horizontal allocation of an unconditional grant for recurrent expenditures to Town Councils and Boards is determined by a fixed amount of E 500,000 plus a formula based on the night-time population.
(ii) Timeliness and reliable information to SN governments on their allocations	*B*	Allocation are communicated to Town Councils and Boards before their budgets are finalised: before new financial year.
(iii) Extent of consolidation of fiscal data for general government	*D*	The aggregate transfers received by Town Councils and Boards are consolidated as a single figure in the Treasury Annual Report for the Ministry of Housing and Urban Development, which is normally produced within 6 months of the year end. However, there is no further consolidation of fiscal data of sub national government.

PI-9: Oversight of aggregate fiscal risk

3.3.12 The Public Enterprise Act (1989) requires each public enterprise to submit a report on its operations together with a copy of its annual audited accounts to the Cabinet Standing Committee on Public enterprises (SCOPE), the Minister of Finance, the Minister Responsible and the Public Enterprise Unit (PEU). While most PEs have the same year end as the Government, some do not. In addition, Category A Public Enterprises are required to submit to the PEU a statement of their financial and operational performance for the quarter within one month of the end of the quarter - this is done and the PEU publishes a report each quarter, as the law requires. However, the overall fiscal position is not consolidated - similar to 2007 assessment.

3.3.13 The Ministry of Housing and Urban Development monitors annually the fiscal position of all Town Councils and Boards but there is no consolidated overview.

Indicator	Score	Brief Explanation
PI-9. Oversight of aggregate fiscal risk from other public sector entities.	**C**	
(i) Extent of central government monitoring of AGAs/PEs	*C*	Category A PEs submits to PEU a statement of their financial and operational performance per quarter within one month though the overall fiscal position is not consolidated.
(ii) Extent of central government monitoring of SN governments' fiscal position	*C*	The Ministry of Housing and Urban Development monitors annually the fiscal position of all Town Councils and Boards but there is no consolidated overview

PI-10: Public access to fiscal information

3.3.14 Transparency will depend on whether information on fiscal plans, positions and performance of the government is easily accessible to the general public or at least the relevant interest groups. The 2005 Constitution provides for enhanced transparency of government financial information. The following table presents information that is made available to the public.

Elements of information to which public access is essential	*In Swaziland*	
Annual budget documentation	**Yes**	Copies of the budget and of the budget speech are public documents that the public can consult once they are printed (prior to parliamentary approval). The last budget speeches and other fiscal information can be accessed on the Government web site: www.gov.sz
In-year budget execution reports	**No**	In-year budget execution reports are not available to the public
Year-end financial statements	**Yes**	Year-end financial statements are included in the annual Treasury Report (but do not include the value of assets)
External audit reports	**Yes**	Auditor-General's reports are available to the Public. The last Report is for the financial year ended March 31st 2008: this was available within six months of completed audit
Contract awards	**No**	Contracts exceeding E 400,000 are not advertised in the media.
Resources available to primary service units	**No**	

Indicator	**Score**	**Brief Explanation**
PI-10. Public Access to key fiscal information	**B**	3 of the 6 listed elements of information are made available to the public.

Conclusion

There is improved comprehensiveness and transparency of the budget and the budget classification follows GFS standards. The Parliament is provided with 8 of the 9 prescribed budget documents for scrutiny and approval.

The public is provided with fiscal information where 3 of the 6 recommended information items are provided. However, there may be interpretation issues by the public with respect to clarity, transparency and accessibility, especially in rural areas where electronic access is limited.

Concern still exists that income and expenditure data (both estimates and actual) on donor financed projects held by the Treasury are not reconciled to other information sources and that fiscal risk of transfers to PEs and Sub National Government are not consolidated and monitored.

3.4 Policy-based Budgeting

PI-11: Orderliness and participation in the annual budget process

3.4.1 There is a detailed budget calendar for the budget preparation process. The MoF drives the annual budget process with involvement of MDAs and Parliament. The 2009/10 budget cycle began in September, 2008, and following advice from the IMF, no MTBPS was prepared for the 2009/10 budget. A workshop preceding Sectoral (for Education, Health and Agriculture) and Ministerial consultations took place in October, 2008 leading to the drafting of the Budget Outlook Paper (BOP). This was presented to the Cabinet at the end of October. The Budget Circular with ceilings was due to be issued immediately after Cabinet approved the

BOP (and ceilings), and MDAs were expected to use software to submit estimates to the Planning and Budget Committee (PBC) by mid-November. The process was delayed and the deadline for MDA submissions extended to 15 December, 2008 after which the PBC process began in earnest. In practice, MDAs had only 11 days from receiving their ceilings (Finance Circular 2, dated 4 December) to finalise their submissions.

3.4.2 The PBC operates at three levels: a working group of Finance Officers, who makes recommendations to a forum of Principal Secretaries, who in turn makes recommendations to Ministers. The process, for the 2009/10 budget, was due to be completed by mid-January, 2009 in order for Cabinet to approve the budget.

3.4.3 The Budget speech is delivered by the end of February and Parliament has about four weeks to approve the Budget (end of March), which is then immediately ratified by the King through an Appropriation Act. Approval by the legislature has happened before the start of the fiscal year in each of the three years under review compared to only once in the previous 3 years.

Table 8: Dates of Appropriation Acts

Budget Year	**Budget speech date**	**Date Appropriation Act signed by King**
2006/07	27 February 2006	26 March 2006
2007/08	22 February 2007	29 March 2007
2008/09	22 February 2008	31 March 2008
2009/10	27 February 2009	27 March 2009

Indicator	**Score**	**Brief Explanation**
PI-11. Orderliness and participation in the annual budget process	**B**	
(i) Existence of, and adherence to, a fixed budget calendar	*C*	Annual budget circular exists but MDAs are given little time to finalise their submissions.
(ii) Guidance on the preparation of budget submissions	*C*	A Budget circular is issued to MDAs including the ceilings approved by the Cabinet. However, only a short period is granted between finalisation of ceilings and final budget submission
(iii) timely budget approval by the legislature	*A*	Approval of budget happened in March, before beginning of new financial year, in all the last 3 years. 2006/7: 26 March 2006 2007/8: 29 March 2007 2008/9: 31 March 2008

PI-12: Multi-year perspective

3.4.4 Expenditure policy decisions have multi-year implications, and must be aligned with the availability of resources in the medium-term perspective. Therefore, multi-year fiscal forecasts of revenue, medium term expenditure aggregates for mandatory expenditure and potential deficit financing (including reviews of debt sustainability involving both external and domestic debt) must be the foundation for policy changes.

3.4.5 Budget estimates are prepared annually for three years ahead on the basis of the main categories of economic classification (salaries, travel, etc). Ministries participate actively in the elaboration of sectoral planning for Health, Education and Agriculture, and these are broken down in economic classification, although there is no clear link between objectives (strategies), programs and budgeted amounts.

3.4.6 The only debt sustainability analysis undertaken was by the IMF for the period 1994 – 2004 and 2005 - 2010. According to the analysis, by 2010 public debt would rise to 44% of GDP, and the external debt-to-GDP ratio to 24.2%.

3.4.7 Sectoral development strategies are elaborated in both the National Development Strategy (Vision 2022) of 1999 and in greater detail in the Poverty Reduction Strategy and Action Plan (2005), which is a comprehensive development strategy containing a matrix of strategic objectives, targets and priority actions. This matrix shows the ministry/entity responsible for implementing the proposed programmes and actions. The submissions indicate anticipated recurrent expenditure over the next 3 years, but within the ceilings in the budget circular. Hence, as many of the strategies are long term, it cannot be said that investments have been substantially costed, within fiscal aggregates.

3.4.8 For many investments, the link between objectives (strategies) and their recurrent cost implications is weak. While recurrent cost implications are usually taken into consideration, they are not accurately updated on an annual rolling basis.

Indicator	Score	Brief Explanation
PI- 12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	**D+**	
(i) multi-year fiscal forecasts and functional allocations	*C*	Rolling forecast of fiscal aggregates are prepared annually (budget estimates) in year n for three years (n+1, n+2 and n+3) on the basis of the main categories of economic classification (salaries, travel, etc). However, the process fails to establish a clear link between objectives (strategies), programs and budgeted amounts.
(ii) scope and frequency of debt sustainability analysis	*D*	A Government approved debt sustainability analysis has not been conducted in past 3 years.
(iii) existence of costed sector strategies	*D*	Many of the sector strategies are long term. However, the investments have not been substantially costed, within fiscal aggregates
(iv) linkages between investment budgets and forward expenditure estimates	*C*	For many investments, the link between objectives (strategies) and their recurrent cost implications is weak.

Conclusion

Overall, there is evidence that the multi-year budget process fails to establish a clear link between objectives (strategies), programmes and budgeted amounts, and also the long term investments and recurrent costs are not substantially costed.

While there is a clear annual budget calendar, minimal time is provided between the finalisation of budget ceilings and submission of the budget proposals by Ministries. The budgets are approved before the start of the fiscal year.

3.5 Predictability and Control in Budget Execution

PI-13: Transparency of taxpayer obligations and liabilities

3.5.1 An effective assessment of tax liability is subject to the overall control environment that exists in the revenue administration system and is dependent on the direct involvement and cooperation of the taxpayers.

3.5.2 Tax legislation and administrative procedures exist that provide comprehensive information covering different types of taxes. Some notable legislation includes the Income Tax Order (King's Order in Council No. 21 of 1975, as amended), the Customs and Excise Act, the Transfer Duty Act, Stamp Duties Act, The Sugar Export Levy Act, The Sales Tax Act and The Fuel Oil Levy Act. A number of practice notes, legal notices and circulars provide comprehensive information with respect to clarity of tax liabilities.

3.5.3 Taxpayers are further informed via the printed media, radio and annual information workshops in the various regions of tax liabilities and the completion of tax returns. The Commissioner does not provide a help desk with a toll-free number to assist taxpayers, however it is in the process of releasing a revised web site that will be more user friendly nor has it developed a web site that is usable by taxpayers to obtain tax information or to file returns or to lodge queries. It does however provide "walk-in" help services at its four branches. Both the Customs Department and the Income Tax Department provide limited user-friendly brochures to taxpayers. There is no effective use of the internet (websites) to inform taxpayers. Information is mostly only available in English, which limits information access to Swati speaking taxpayers.

3.5.4 The Income Tax Order provides sufficient information on mechanisms to deal with objections and appeals. These include time and manner of lodging objections, onus of proof as to exemption, and appeal against the commissioner's decision. This is further supported by practice notes dealing with objections against assessments. No records are kept of the number of appeals that were made during any specific period. As appeals are received cases are investigated and responded to. Documents are then filed in the relevant taxpayer file. The Commissioner relies on Practice Note 181, which deals with the relationship between the Commissioner and the Auditing firms in terms of the lodging of tax returns, however the lack of sufficient capacity results in delays of tax filings that are not penalised. It was also suggested by Customs officers that a more transparent tax appeals process be consider once the Swaziland Revenue Authority is established.

3.5.5 No lists or databases are kept of taxpayers that appeal or object to taxes charged. It was established that during May 2009 approximately 112 letters were received by the Department of which the majority were objections or tax queries. It could therefore be argued that in excess of 1,000 appeals/objection cases may be dealt with on an annual basis.

3.5.6 We were informed that the Customs Department is in the process of establishing a customs help desk that will provide services and information to companies and individuals on all Customs and GST tax matters.

Indicator	Score	Brief Explanation
PI-13. Transparency of taxpayer obligations and liabilities	**C+**	
(i) Clarity and comprehensiveness of tax liabilities.	C	Largely meets good practice criteria, but taxpayer registration is not legally entrenched and fair amount of discretion is possible.
(ii) Taxpayer access to information on tax liabilities and administrative procedures.	B	Taxpayers can access data through tax offices, but the use of internet and user-friendly brochures to explain taxes and administrative procedures are limited.
(iii) Existence and functioning of a tax appeals mechanism.	C	Although the tax appeals mechanism is in place and being used, its effectiveness is doubtful, given systems and administrative complexities.

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

3.5.7 There are no specific provisions that require taxpayers to register for tax purposes and there is no penalty for failure to register. A draft bill is in the process of being finalised to make amendments to the tax order introducing the liability to register together with penalties for transgressions.

3.5.8 The taxpayer registration system exists though it is not integrated and uses independent programmes for taxpayer registration, customs registration, GST registration and company registration. Control over taxpayer registration is therefore onerous and difficult to measure, given the use of disparate and unlinked registration systems.

3.5.9 The Income Tax Order (section 69*ter*) allows the Commissioner to attach a taxpayer identification number (TIN) or a personal identification number (PIN) to tax returns. The objective of this requirement is to provide the opportunity for an integrated taxpayer registration system. However, attempts to introduce a singular ID system have been stifled by process difficulties and lack of cooperation in government organisations to implement a uniform system.

3.5.10 A tax clearance process is in place (Practice Note no. 141 of 2004) to enable the Commissioner to bring to charge all taxpayers having an income and to enforce collection of all outstanding taxes. The clearance note allows for two endorsements; that there is no tax outstanding against the person, and that satisfactory arrangements have been made by the taxpayer to pay all outstanding taxes. However, the latter endorsement, which was not supported by the Commissioner, allows for interpretation and misuse, which may result in uncollected taxes.

3.5.11 Further strengthening of taxpayer registration is found in specific projects or controls such as tax amnesty programmes, the use of the Final Deduction System (FDS) and specific remedies to enforce penalties.

3.5.12 Capacity constraints and organisational limitations (right to legal representation) limit the effectiveness of the department in terms of tax collection and penalty enforcement. The use and enforcement of penalties are limited and ineffective given both capacity and systems limitations. This is further exacerbated by organisational constraints, such as the complexity of legal representation by the tax department. The Commissioner was previously able to take legal action on its own accord; however this was altered in the Act in 1975.

3.5.13 The manual customs process may result in errors and omissions, including under declarations of customs and excise. Penalties for non-compliance from a customs perspective are not a strong deterrent. A notional fine of E 1,000 or one year imprisonment could be levied for GST contraventions, although the minister could use discretionary powers to reduce or wave fines in instances of appeal. Currently the tax assessment systems for Income Tax does not allow for the levying of penalties and interest in the normal course of business onto taxpayer assessments, which has the effect that penalties are not charged. Customs penalties are well described in Income tax Order. We were informed that the computer system is being updated to enable the assessments department to levy penalties on outstanding tax amounts, which should be done by August, 2009.

3.5.14 The Commissioner is in the process of setting up a “Large Taxpayer Unit” to assess compliance of large taxpayers through a dedicated unit of specialists. However, the introduction of this unit is being delayed by the imminent establishment of the proposed Revenue Authority. A further concern is the deployment of sufficient capacity to resource such an initiative. The Assistant Commissioner (Legal) was also of the opinion that the capacity levels to prosecute tax fraud and complex tax evasion are limited, both in the office of the Commissioner as well as in the office of the Public Prosecutor. Tax prosecution from that perspective is therefore limited to obvious and clear cut case of non payment or evasion.

3.5.15 We were unable to view any audit plans for Income Tax and our discussion with the Income Tax Audit division revealed that Income Tax Audits are done more on a reactive basis by obtaining information from the assessments division, or by obtaining external information through market sources. Companies and individuals that are identified by these means that show specific anomalies such as prolonged losses, large write-offs or extraordinary market activities are then audited.

Indicator	Score	Brief Explanation
PI-14. Effectiveness of measures for taxpayer registration and tax assessment	**D+**	
(i) Controls in taxpayer registration system.	D	Control over taxpayer registration is onerous and difficult to measure, given the use of disparate and unlinked registration systems related to tax declarations.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations.	C	The use and enforcement of penalties are limited and ineffective given both capacity and systems limitations.
(iii) Planning and monitoring of tax audit and fraud investigation programs.	D	Some evidence of programmes, but limited information to evaluate properly.

PI-15: Effectiveness in collection of tax payments

3.5.16 The accumulation of tax arrears can be a critical factor undermining high budgetary outturns, while the ability to collect tax debt lends credibility to the tax assessment process and reflects equal treatment of taxpayers. The prompt transfer of the collections to the Treasury is essential for ensuring that the collected revenue is available to the Treasury for spending, and aggregate reporting on tax assessment, collection, arrears and transfers to Treasury must take place regularly and be reconciled.

3.5.17 Limited information was provided on tax arrears. There is no reconciliation procedure for arrears taxes, current taxes and budgeted taxes. The only information provided is a “Revenue Collection Report” that sets out current and cumulative monthly collection information of actual taxes compared to the budget as per the table below. No information was obtained on Customs collections and arrears. It is envisaged that the ASYCUDA system will strengthen control at border posts and result in improved Customs collections.

Table 9 – Actual versus budgeted sales tax

Year	Sales tax estimates (E)	Actual collections (E)
2006/07	730,000,000	616,400,000
2007/08	773,100,000	774,000,000
2008/09	860,895,000	974,830,000

3.5.18 Taxes collected by branch offices are banked on a daily basis into the account of the “Treasury”. According to the tax collections department the amounts collected by head office and the four branches are reconciled with the amounts deposited into the “Treasury” account. Limited tax arrears information makes it impossible to evaluate the effectiveness of tax collection.

3.5.19 Clearing agents pay security bonds and most are registered with the Customs Department. Security bonds are calculated on companies' annual turnover. This is largely a manual process and controls over bonds are weak. The manual processes at border posts and the handling of cash amounts are not optimal and may result in loss of cash or delays in banking. Border posts bank individually through a commercial bank and deposit slips are submitted to the nearest revenue office. Deposits are then made to the Accountant-General's treasury account at the Central Bank. This process is not functioning optimally given the existence of an intermediary account in the deposit-taking process.

3.5.20 There is no reconciliation procedure for aggregate balances of amounts assessed, amounts received, arrears and amounts banked. The Accountant-General's department prepares an aggregate reconciliation of the account with the Central Bank once a year at the financial year-end. No reconciliation statement is prepared or signed off. The reconciliation is a manual process and performed on the bank statement and loose sheets of paper. The team was only able to check that this was done for the 2007/08 year. Information for the preceding two years was not available. At the time of the mission visit the accounting department was busy with the 2008/09 reconciliation and it was not yet complete. No reconciliation is performed by the accounts department of the customs account with the South African Reserve Bank. Statements are checked off against the Central Bank account annually when the reconciliation is performed.

Indicator	Score	Brief Explanation
PI-15. Effectiveness in collection of tax payments	**NS**	
(i) Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year.	NS	No reconciliations are performed to determine the level of tax arrears. Data systems contain sufficient information to determine tax arrears and actually perform a monthly reconciliation.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	B	Multiple bank accounts exist and the infrequent reconciliation process limits the effectiveness of funds transfers and reduces transparency of tax collection. We were informed that reconciliations are now being done on a monthly basis. Taxes collected are banked atleast on a weekly basis into the Treasury account.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	D	Reconciliations are performed annually and are a complex and onerous task. The reconciliation process is limited to deposit information and does not include assessments and arrears.

PI-16: Predictability in the availability of funds for commitment of expenditures

3.5.21 Cash flow forecasts are done on a quarterly basis by the Treasury and are used by the Investment Committee that consists of the representatives from the Treasury, MOF and the Central Bank. Cash flows are prepared based predominantly on figures from the previous quarter and previous year, i.e. incremental basis; and input from MOF and Central Bank on debt payments. No model is used to prepare the forecasts. Because payments are centralized, i.e. done by the Treasury only for central government, MDAs play no role in cash flow forecasting. Based on this, we assessed the quality of cash flow forecast information to be inadequate.

3.5.22 The MoF issues warrants of expenditure (ceilings) on a quarterly basis - usually issued before the start of the quarter. There has been an improvement in the use of warrants to control expenditure, since the payments system does not allow expenditure where no budget provisions are made. Re-allocations within votes are done centrally on request by the MOF. Budget adjustments through supplementary budgets are usually done once a year to cater for unforeseen events. One supplementary budget was issued for 2005/6 and 2006/7 and twice in 2007/8.The supplements are done by the MOF and approved by Parliament as per the provisions of the constitution with minimal or no transparency to the public.

Indicator	Score	Brief Explanation
PI-16. Predictability in the availability of funds for commitment of expenditures	**D+**	
(i) Extent to which cash flows are forecast and monitored	*D*	Cash flow forecasts are prepared quarterly based on previous years' cash flows. The basis could be improved to forecast based on approved budget and quarterly cash flows.
(ii) Reliability and horizon of periodic in-year information to MPSAs on ceilings for expenditure	*B*	Expenditure warrants usually issued per quarter in advance. There is improved respect of the warrants: payments can only be made where there is a budget allocation.
(iii) Frequency and transparency of adjustments to budget allocations which are decided above the level of management of MPSAs	*C*	In –year budgets were done once per year during the period 2005/6 and 2006/7 and twice in 2007/8 through the MoF and Parliament with minimal or no transparency to the public

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

3.5.23 Debt recording of Central Government is done by the MOF using the Commonwealth system (CS-DRMS) for foreign debt with a back up at the Central Bank. The MOF, Treasury and Central Bank meet once a year to reconcile figures which are published in the Treasury Annual Report. The central bank also publishes aggregated debt information in their quarterly reports and annual reports. Guarantees are also recorded in the system by the MOF. However, the information on debt and guarantees is not separately recorded and controlled in the Treasury by the Accountant-General. There is no agreed systematic recording of loans made out to PEs and SNG by the government and furthermore there is no dedicated section of officers dealing with government debt management. PE debt is authorised by the MoF and monitored by the PEU and reconciliations and confirmation with lenders are subject to external audit reviews.

3.5.24 There are 14 bank accounts of which five are general operating accounts (including a call account) and the rest are Special Funds accounts. Autonomous agencies and donor projects legally have their own bank accounts outside the cash management system controlled by Treasury. Automatic sweeping arrangements are in place with the Central Bank where excess liquidity in the general accounts is transferred daily to the call account. Funding is also done overnight from the call account to the operating accounts when necessary. Cash balances are drawn up quarterly (even if not fully reconciled) and become an input into the cash flow projections. Treasury also records weekly cash balances which are distributed to the MOF as well.

3.5.25 Borrowing and raising of loans and issuing of guarantees by the government are regulated by the Constitution (Section 204). The Minister of Finance is the only public official authorised to contract loans, but only under a resolution of or an Act of Parliament. Swaziland Public Debt Policy regulates procedures and ceilings of external loans and guarantees.

Indicator	Score	Brief Explanation
PI-17 Recording and management of cash balances, debt and guarantees	**C+**	
(i) Quality of debt data recording and reporting	*C*	Debts are recorded by MOF though reconciliations are only done once per year and loans to PE are incomplete.
(ii) Extent of consolidation of the government's cash balances	*C*	Cash balances are determined and consolidated quarterly. There is daily cash sweeping of operating accounts.
(iii) Systems for contracting loans and issuance of guarantees	*B*	Minister of Finance is responsible of contracting of loans and issuance of guarantees under a resolution of or an Act of Parliament. Swaziland Public Debt Policy set the basis for loans and guarantees procedures and ceilings.

PI-18: Effectiveness of payroll controls

3.5.26 Staffing and control of the staff complement is done under MOPS. Payroll documents flow from MDAs to MOPS who capture the employee details onto the payroll system. There is a HR system which is not yet fully deployed to all MDAs, hence the aggregate control over HR is incomplete. Treasury is responsible for checking/calculation of all payroll payments and capturing into the payroll system. Treasury uses the information in the payroll system although there are no formal reconciliations done between the personnel records and the payroll system.

3.5.27 Delays in the processing of payroll changes are a reality which in instances result in more than 6 months delay in making correct salary payments to staff. Most delays appear to be with the MDAs with either warrant holders not signing documents on time or simply a breakdown in communication between officers involved in the processing of personnel records.

3.5.28 Both the HR and the payroll systems have segregation of responsibilities (allocation of functions and password control) and authorization processes to ensure data integrity. Both systems maintain audit trails to track the source of changes made. However, the systems are not integrated.

3.5.29 No auditing (internal or external) of the payroll and payroll (IT) system has been done over the last three years. Audit queries arise occasionally as a result of desk auditing using the computer records/reports.

Indicator	Score	Brief Explanation
PI-18. Effectiveness of payroll controls	**D+**	
(i) Degree of integration and reconciliation between personnel records and payroll data.	*D*	While payroll system records are complete, the HR records are incomplete as the system has not been introduced in all MDAs.
(ii) Timeliness of changes to personnel records and the payroll	*D*	There are delays in processing changes sometimes resulting to more than 6 months delay in making the salary adjustment payment
(iii) Internal controls of changes to personnel records and the payroll.	*A*	There are adequate controls for authorisation and processing changes in personnel records in Payroll and HR systems
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	*D*	No auditing (internal or external) of the payroll and IT payroll system has been done over the last three years.

PI-19: Competition, value for money and controls in procurement

3.5.30 Significant public spending takes place through the public procurement system. A well-functioning procurement system ensures that money is used effectively and efficiently. Open competition in the award of contracts has been shown to provide the best basis for achieving efficiency in acquiring inputs for and value for money in delivery of programs and services by the government. This indicator focuses on the quality and transparency of the procurement regulatory framework in terms of establishing the use of open and fair competition as the preferred procurement method and defines the alternatives to open competition that may be appropriate when justified in specific, defined situations.

3.5.31 Procurement in Swaziland is undergoing transition. Since 2006, a government-led and financed Procurement Reform Programme, now in its 2nd Phase, has been underway, supported by a Technical Secretariat in the Ministry of Finance and the Crown Agents Procurement Reform Team - a proposed third Phase would continue into 2010.

3.5.32 The legal framework is also in transition. The Procurement Regulations 2008 (gazetted 18th July 2008) have been issued in accordance with Section 26 of the Finance and Audit Act 1967, while a Draft Procurement Bill is currently with Cabinet. These Regulations repeal Chapters 3 and 14 of Part I of the Stores Regulations of 1975 (the remainder are still in place). Both the Regulations and the Bill are accessible on the Ministry of Finance Web Site, and have been aligned with best procurement practice and Swaziland's treaty obligations including with COMESA.

3.5.33 The Regulations establish a Swaziland National Tender Board, although this is not yet in place and the (previous) Central Tender Board remains and considers submissions over E400,000 for goods and services and all works submissions. Similarly, the Treasury Tender Board remains and considers a limited range of submissions, primarily those tendered on an annual basis. All Treasury Tender Board awards are subject to review by the Principal Secretary, Ministry of Finance who is also Chair of the Central Tender Board. This ensures consistency between the two Boards. Applications for the approval of procurement below E400,000 for goods and services and not being awarded on an annual basis, are subject to approval by the Ministry of Finance. This arrangement for lower value awards will be formalized in a Sub-Committee of the proposed Swaziland National Tender Board when the Board is established.

3.5.34 The Central Tender Board has received significant training and support under the Procurement Reform Programme and is operating effectively and efficiently, and since January 2009 has been publishing monthly tender statistics and results. The Technical Secretariat has developed standard documents which are in use by some – but not all – entities undertaking procurement, and is working with entities to ensure that the appropriate standard document is used.

3.5.35 Part 7 of the Procurement Regulations set out all procurement methods and the specific circumstances when each method can be used. Regulation 40(3) states that *'procuring entities shall use open tendering for the procurement of all goods, works and non-consulting services, except where the procurement meets the conditions for use of an alternative method in accordance with this part'*. Regulation 42(3) has a similar statement concerning the use of Requests for Proposals for consulting services. Justification for using a non-competitive method is required by the Central Tender Board, and a number of procurement activities have been stopped for failing to provide this justification.

3.5.36 Accurate data on the method used for government procurement is available from 1st July 2008, and up to 30th June 2009, 76% of all Central Tender Board approvals were for submissions made via open competition. For the period 1st January to 30th June 2009, this had increased to 80%.

3.5.37 Where less competitive procurement methods are used, the Procurement Regulations require that full justification must be provided. However, as the Regulations are not yet completely implemented, justification for use of less competitive methods for up to 20% or more of all procurements is currently weak or missing.

3.5.38 Although the Bill details a clear process for submission and timely resolution of procurement process complaints and will be subject to oversight by the proposed Swaziland Procurement Regulatory Authority, no such provisions are currently in place

Indicator	Score	Brief Explanation
PI-19. Competition, value for money and controls in procurement	**C+**	
(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	*A*	Accurate data on the method used to award public contracts exists and shows that more than 75% of contracts above the threshold are awarded on the basis of open competition.
(ii) Justification for use of less competitive procurement methods	*C*	Justification for use of less competitive methods for upto 20% or more of all procurements is currently weak or missing. This will improve as the Procurement Regulations, 2008, are more consistently used by all entities undertaking procurement.
(iii) Existence and operation of a procurement complaints mechanism	*D*	No process is defined to enable submitting and addressing complaints regarding the implementation of the procurement process

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

3.5.39 A government computerised commitment system to control and monitor government expenditure was started in 2006 and has now been introduced in all Ministries. While the system has ability to be used for approvals and recording transactions (from initiation to payment of a transaction), several weaknesses still exist as further outlined below.

3.5.40 Current practice in line ministries is to only commit expenditure in vote books (to the extent that these manual records are maintained), when purchase orders (known as supported payments) are issued. Certain types of recurring expenditures, including salaries, CTA vehicle costs, utilities, capital contracts, forms of travel and personnel allowances (known as unsupported payments) are not yet committed and as such not subject to effective control.

3.5.41 Commitments are reportedly also incurred outside the formal procurement and commitment processes, which undermine the integrity of efforts to control expenditure against the approved budget. In it is reported by various stakeholders and confirmed by the Auditor General that a significant amount of commitments are initiated informally due to lack of funds or other reasons.

3.5.42 In addition, it is not effectively used since -

a. appropriate training has not been undertaken by all staff who are meant to use the system – some accounting officers (warrant holders) don't know how to use it yet they are expected to approve orders in the system;

b. some government officials are unaware of the system;

c. lack of internal technical support and hardware for the system;

d. only a few dedicated staff are assigned to use the system;

e. the reports from the system are only used at the end of the year by the Accountant-General;

f. it has also created accounting problems for ministries and departments because it is not closely monitored;

g. some of the payments are not being processed through the system, specifically utilities payments, salaries, and central pool vehicle charges;

h. manual orders are still being raised in some instances.

This makes it difficult to effectively record, monitor and enforce commitments which may cause over expenditure.

3.5.43 The Financial Management & Accounting Procedures Manual issued in April 1993 sets out the accounting policies and procedures adopted within the Treasury department and line ministries. Most of the procedures are outdated as the Manual has not been updated.

3.5.44 While a number of procedures are complied with, the internal audit report and Auditor-General reports (over the years) have reported incidences of under or over expenditure by ministries and departments and irregularities due to non-compliance of internal controls (rules and procedures): evidence that raises concern that controls are not applied adequately. There is no evidence of existence of emergency procedures for purchases.

Indicator	Score	Brief Explanation
PI-20. Effectiveness of internal controls for non-salary expenditure	**D+**	
(i) Effectiveness of expenditure commitment controls.	*D*	The computer based commitment system introduced in 2006 is not effective.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures.	*D*	Financial Management & Accounting Procedures Manual issued in April 1993 sets out the accounting policies and procedures adopted within the Treasury department and line ministries. Most of the procedures are outdated as the Manual has not been updated. There is no evidence of existence of emergency procedures for purchases
(iii) Degree of compliance with rules for processing and recording transactions.	*C*	While a number of procedures are complied with, the internal audit report and Auditor-General reports (over the years) have reported incidences of non compliance. There is no evidence of existence of emergency procedures for purchases

PI-21: Effectiveness of internal audit

3.5.45 The Internal Audit Department, with 26 officials, was moved in November 2008 from Treasury to a separate department that reports directly to the Minister of Finance (through the Permanent Secretary). In essence the Department is being re-established.

3.5.46 The internal audit function is currently ineffective. There is no current legislation that mandates the operations of the Internal Audit. The Department, through a circular issued by MoF, is required to perform the internal audit function for all Central Government agencies. However, they focus on performing pre-audits of transactions before they are paid, special reviews when requested, board of surveys (review and confirm existence and completeness of bonded assets), observe stock-takings and auction sales. Audits are performed on a reactive basis and a work plan and Audit Manual does not exist. The internal audit reviews that are done are not system-based nor risk based, and not in line with International Auditing Standards.

3.5.47 The reports issued on the work done are distributed to the reviewed entity, the Ministry of Finance and the Auditor-General. Best practice requires Internal Audit to report to Audit

Committees within the entity: however there is no legislative requirement to establish an audit committee.

3.5.48 There is no evidence that follow-up is done on the recommendations in the reports issued by internal audit, except to note that the Auditor-General who does not rely on work of internal audit, normally follows up on the recommendations during the external audit process.

3.5.49 The government, through donor funding, has contracted consultants who will provide support with the re-establishment and institutional strengthening of the internal audit department. The consultants will develop work flow procedures including manuals and audit plan for the department; establish staffing needs and the department's structure; formulate job descriptions/profiles; and assess job and skills gaps and advice on how to deal with them. It is expected that the outcomes will be implemented with effect from 1 April 2010.

Indicator	Score	Brief Explanation
PI-21. Effectiveness of internal audit	**D**	
(i) Coverage and quality of the internal audit function	*D*	There is no internal audit work plan. The focus of the department is pre-audit of transactions before they are paid, special reviews when requested, board of surveys (review and confirm existence and completeness of bonded assets), observe stock-taking and auction sales
(ii) Frequency and distribution of reports.	*D*	The internal audit reports are very irregular. However, the reports issued on the work done are distributed to the reviewed entity, the Ministry of Finance and the Auditor-General.
(iii) Extent of management response to internal audit findings.	*D*	There is no evidence that follow up is done on the recommendations in the reports issued by internal audit except to note that the Auditor-General, who does not rely on work of internal audit, normally follow up on the recommendations during external audit process

Conclusion

While taxpayer obligations and liabilities are transparent, there is no legal stipulation that require tax payers to register or a separate penalty for failure of such registration. In addition, the existing tax registration systems are not integrated, where each type of tax has its own system. Information on tax arrears does not exist and in general the process to register, assess taxes and enforce payment is weak.

External debt information is recorded except for some loans to PEs whose loan data and amounts are unknown. While the debts and guarantees are granted by the Minister of Finance under an Act of Parliament, there are no set guidelines for loan and guarantee ceilings.

Progress has been made in procurement reforms that have contributed in enhancing controls over procurement. Procurement Regulations were issued in 2008 and is being implemented under the support of Technical Secretariat in the Ministry of Finance and the Crown Agents Procurement Reform Team. To strenghthen procurement controls and get value for money, the government should pursue to approve the Procurement Bill and continue to implement the planned 3rd phase of procurement reform.

Expenditures are incurred based on the warrants issued quarterly and only one budget supplement was issued in two of the three years under review. There are also improvements in the procurement system, although incidences of corruption are still noted and reported in the media.

Reforms are needed to enhance the ineffective internal audit department and to fully implement an effective system to monitor commitments and arrears.

3.6 Accounting, recording and reporting

PI-22: Timeliness and regularity of accounts reconciliation

3.6.1 Reliable reporting of financial information requires constant checking and verification of the recording practices of accountants. This is an important part of internal control and a foundation for good quality information for management and for external reports. Timely and frequent reconciliation of data from different sources is fundamental for data reliability. Two critical types of reconciliation are: (i) reconciliation of accounting data, held in the government books, with government bank account data held by the central bank and commercial banks, and (ii) regularity of reconciliation and clearance of suspense accounts and advances.

3.6.2 There are 14 bank accounts of the government, all kept with the Treasury. Five of these accounts relate to core government operations and the rest are Special Funds accounts created to fund specialized mandates of the government. All these accounts are only fully reconciled very late after the end of the financial year, which prevents the MoF through the Accountant-General to compile accurate cash flow information and stifles the process of preparing reliable cash management and accounting information. It also prevents the Accountant-General to identify and address banking errors that may exist. Outstanding cheques are the main reconciling item on the main account (General Account) and there seems to be no formal policy on the treatment of long outstanding cheques. There is a strong need to review the current information systems platform in order to automate the reconciliation process. Autonomous agencies and donor projects legally have their own bank accounts outside the cash management system controlled by Treasury.

3.6.3 Suspense accounts come mainly in three categories: 1) Employee Advances, 2) Ministry Advances, and 3) Investment Accounts. Within Treasury there is no clear allocation of responsibility for the reconciliation of the first category. Ministry advances are the responsibility of the MDAs under the guidance of the Treasury. These are reconciled irregularly mostly towards the end of the financial year. The last category is the responsibility of the Treasury and is reconciled annually at the end of the financial year.

Indicator	Score	Brief Explanation
PI-22. Timeliness and regularity of accounts reconciliation	**D**	
(i) Regularity of bank reconciliations	*D*	The Bank accounts are only reconciled once at the end of the year.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	*D*	Suspense accounts are reconciled annually at the end of the year

PI-23: Availability of information on resources received by service delivery units

3.6.4 Very little information is available for this indicator. It is noted that school fees and school building funds amongst others are charged directly by all schools and form a significant part of schools' resources. These are neither brought into the consolidated fund nor reported on formally in a public document. It is also acknowledged that donors are seen periodically donating equipment and motor vehicles to public health facilities around the country through the Ministry of Health. There is no evidence that this assistance is brought to account anywhere.

Indicator	Score	Brief Explanation
PI-23. Availability of information on resources received by service delivery units	D	Very little information exists on resources received directly by service delivery units.

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

3.6.5 The ability to monitor budget execution requires timely and regular information on actual budget in relation to outcome; this information should be available both to the Ministry of Finance, to monitor performance, and if necessary to identify new actions to get the budget back on track as well as to MPSAs to manage the operations for which they are accountable. The division of responsibility between the Ministry of Finance and ministries/agencies in the preparation of the reports will depend on the type of accounting and payment system in operation. At its most basic, the role of the MoF may simply be to consolidate the reports provided by sector ministries from their accounting records.

3.6.6 There are two in-year budget reports prepared by MDAs in the government – (i) monthly management statements submitted to the MOF; and (ii) quarterly performance reports that are submitted to parliament (copied to the MOF).

3.6.7 The monthly management statements submitted to the MOF contains all the information required as per the framework in this indicator, i.e. original budget, approved supplements, reallocations, commitments, expenditure-to-date, total spent and committed, projections to end-of-year and percentage variances. The data is presented as per the budget format which is by vote and expenditure item. The MOF budget section, however, decried the absence of performance by programme in these reports, which limits their usefulness. They were nonetheless said to be useful in monitoring expenditure trends and early intervention where problems are apparent. These reports are compiled per individual MDA. However, there is no evidence that a consolidated position is produced either by the Treasury or the MOF, or that the quantitative data presented necessarily agrees to the TAS. The reliability of the data is further compromised by the lack of regular bank reconciliation as reported under PI-22.

3.6.8 The reports become due on the 15th of the following month and one report seen was submitted on the 16th of the following month. The primary data used is extracted directly from the computer system which has the original budget and payments and adjustments done to that date. There is no reason to believe that there are significant data accuracy issues.

3.6.9 Parliament also requires that comprehensive quarterly performance reports be submitted by MDAs not later than one month after the end of the quarter. Based on these reports members of parliament may raise questions and / or move motions in parliament. One such report for the first quarter of the 2009/10 fiscal period from the Department of Correctional Services (Prisons) was dated 23rd July, well within the four weeks timeframe stipulated in the PEFA framework. The report itself was very comprehensive, covering mission statement, the legal mandate of the agency, objectives, policies, performance against targets for each section and financial performance in the same format as the monthly reports. It would appear that the fear of a public hearing in parliament acts as a strong incentive for compliance amongst controlling officers. Whilst the financial performance can be verified easily using the computerized accounting system, the actual deliverables as per set targets need a more detailed audit.

3.6.10 Not all MDAs submit their parliamentary reports to the MOF on a regular basis, thus denying the ministry an opportunity to monitor progress and value for money.

Indicator	Score	Brief Explanation
PI-24. Quality and timeliness of in-year budget reports	**C+**	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	*C*	Monthly reports to MoF and quarterly reports to Parliament are comprehensive though don't include commitments
(ii) Timeliness of the issue of reports	*A*	Reports are issued timely.
(iii) Quality of information	*C*	The differences in Budget estimate data and Treasury Annual reports (P1-1) raised concern on accuracy of data

PI-25: Quality and timeliness of annual financial statements

3.6.11 The Finance and Audit Act provides that, amongst other reports, the Accountant General should provide a statement of the government's Assets and Liabilities as at the close of the financial year. A consolidated central government statement is prepared annually including revenues, expenditures and some assets and liabilities. It does not include all financial assets of the central government e.g. loans to PEs, accounts receivable

3.6.12 The Finance and Audit Act provides that the Annual Accounts must be presented to the Auditor General for audit by 30 September each year, i.e. within 6 months of the end of the year. According to the Auditor General's reports submissions by the Accountant General were as follows:

Table 10: Dates of submission of financial statements

Year	2005/06	2006/07	2007/08
Date of submission	28 November 2006	6 November 2007	30 September 2008

As seen from the table above the six-month timeline was achieved only once over the three years reviewed with the other two years slipping by 2 months.

3.6.13 The basis of reporting does not follow any international standards of accounting and reporting, but is done in terms of the Finance and Audit Act (Appropriation), which is cash based.

Indicator	Score	Brief Explanation
PI-25. Quality and timeliness of annual financial statements	**C+**	
(i) Completeness of the financial statements	*C*	The central government consolidated financial statements exists but do not include essential information on assets and liabilities.
(ii) Timeliness of submission of the financial statements	*A*	The Central Government consolidated financial statements for the period 2007/8 was submitted for external audit within 6 months after year end
(iii) Accounting standards used	*C*	The financial statements are prepared consistently following the appropriation method included in Finance and Audit Act No accounting standards are currently applied.

Conclusion

There are major concerns on the maintenance of accounting records. Bank reconciliations are only done once in a year, no records are maintained at Ministry levels on resources received directly by service delivery units and in-year central government budget reports are not prepared. However, it is worth noting that Ministries prepare quarterly reports comparing actual expenditure against the budget, although these reports are not reviewed. Central government consolidated financial statements do not include essential information on assets and liabilities and no recognised accounting standards are used to prepare these financial statements. The financial statements are submitted for audit within 8 months after year end.

3.7 External scrutiny and audit

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

3.7.1 Public sector auditing is a crucial element of an effective accountability framework. Key elements of an effective external audit function include whether external audit: (i) is adequately empowered, i.e. authority exists to obtain the necessary information, and the scope of audit covers the full public sector; (ii) adheres to appropriate auditing standards (INTOSAI, IFAC) and focuses on significant and systemic PFM issues in its reports; and (iii) covers the full range of financial audit, including reliability of financial statements, regularity of transactions and functioning of internal control systems.

3.7.2 The Auditor-General operates under the Audit Act, 2005 that was effective from 1 February 2006. The Office of the AG, as at 31 March 2009, had 64 auditors: 57 financial audits auditors, 5 performance auditors and 2 environmental auditors. While the number has increased, the team is insufficient to fulfil the AG mandate. Only one of the auditors has an accounting profession qualification and there is no available funding to train existing staff. The recruitment of staff is done by the Public Services Commission with no AG involvement. The AG is affiliated to the International Organisation of Supreme Audit Institutions (INTOSAI) and the African Organisation of English Speaking Supreme Audit Institutions (AFROSAI-E). The AG is currently introducing relevant auditing best practices from the INTOSAI and AFROSAI-E and are benefiting from training received from these organisations.

3.7.3 The AG, in terms of the Audit Act, performs financial statutory audits and issues an audit opinion of the Consolidated Fund (which only includes information relating to Central Government Ministries and departments) annually. He also performs audits of transactions (internal controls) in central government Ministries and Departments. Management letters are issued that reports weaknesses in internal controls and irregularities. Ministries' transactional audits are done on a rotational basis while no IT security audit has been done.

3.7.4 Currently, generally accepted government auditing practices – not standards - are used to audit the Consolidated Funds and transactions in the individual agencies. Therefore, the AG does not apply recognised Auditing Standards. A process to adopt AFROSAI-E Regularity Audit Manual (based on International Standards of Auditing) is being put in place. A review of the AG annual report revealed the need to adopt recognised Auditing Standards. This is necessary to achieve the desired government auditing reporting standards and especially to ensure that statements referred to in the audit opinion form part of the AG annual report.

3.7.5 The Public Enterprises and sub-national agencies (Town Councils and Boards) are audited by Private Audit firms. The AG has no audit responsibilities over such agencies.

3.7.6 The annual reports of the AG, containing the audit report on the Consolidated Fund and management letters on individual agencies, are submitted to Parliament through the Minister of Finance. The submission of these reports for the last three years happened the day before the budget speech, which takes place in February. Thus 11 months after year end, two months later than the reporting deadline. While the AG report includes an opinion on fair presentation of financial statement of the Government and the results of operations for the year, the two statements (consolidated statement of financial position and statement of financial performance) are not disclosed in the AG annual report.

3.7.7 On submission of the report to Parliament, the PAC debates on the reports and issues recommendations, which are addressed to the specific agencies for remedial action. The agencies respond to recommendations, which are followed up by the Auditor-General. A follow up mechanism by the AG exists to ensure that the AG and PAC recommendations are implemented. The process is weakened by low number of staff in AG's office. In addition, the level at which recommendations are acted on by Controlling Officers is poor as similar issues are reported year-on-year. Most recommendations indicate a lack of compliance with internal controls and in his 2008 report, the AG noted that "*the abuse of public funds (fraud and corruption) is well pronounced in the whole of government, is becoming a norm or culture and is rife in the various government ministries and departments. Fraud and corruption has become like a contagious disease, which needs urgent redress*".

Indicator	Score	Brief Explanation
PI-26 Scope, nature and follow-up of external audit	**C**	
(i) Scope/nature of audit performed	*C*	The financial audit focuses on consolidated central government financial statements and transaction audit for individual ministries. However, no recognised auditing standards are adhered to.
(ii) Timeliness of submission of audit reports to legislature	*C*	Audit reports are normally submitted to Parliament in February: 11 months after year end.
(iii) Evidence of follow-up on audit recommendations	*C*	A process to follow up AG recommendations exists though the extent of implementation is low as some of the issues are reported from one year to the next.

PI-27: Legislative scrutiny of the annual budget law

3.7.8 The procedures for legislative review of the draft budget exist in the 2005 Constitution and the Standing Orders. The Cabinet is involved in the development of the draft budget.

3.7.9 The legislative approval starts with the review of a draft budget by the Parliament Finance Committee. Thereafter the Minister of Finance presents the budget to Parliament through the Budget speech, which is normally done in February. Parliament debates the budget speech focusing on the policies therein and the budget is later discussed by the different Portfolio Committees. The committee reports and the estimates are debated and adopted in Parliament and an Appropriation Bill is signed by the King, usually in March- the month before the start of the financial year. While the budget cycle is usually concluded on time, it is not necessarily adequately informed by the framework documents, such as the MTEF.

3.7.10 The legislature is given one month to review and approve budget proposals. There is evidence, per the table below, that the legislative review normally lasts about a month (from date of budget speech to signing of Appropriation Act).

Budget Year	Budget speech date	Date Appropriation Act signed by King
2006/07	27 February 2006	23 March 2006
2007/08	22 February 2007	29 March 2007
2008/09	22 February 2008	31 March 2008
2009/10	27 February 2009	27 March 2009

3.7.11 The Constitution and the Standing orders contemplate in-year budget amendments by the executive. Re-allocations within votes are done centrally on request by the MOF. Budget adjustments through supplementary budgets are usually done once a year to cater for unforeseen events. One supplementary budget was issued for 2005/6 and 2006/7 and twice in 2007/8.The supplements are done by the MOF and approved by Parliament as per the provisions of the constitution with minimal or no transparency to the public.

<table>
<tr><th>Indicator</th><th>Score</th><th>Brief Explanation</th></tr>
<tr><td>PI-27 Legislative scrutiny of the annual budget law</td><td>C+</td><td></td></tr>
<tr><td>(i) Scope of the legislature’s scrutiny.</td><td>C</td><td>Parliament is involved in the review when detailed budget proposals have been finalised. Fiscal policy statements are only issued once in three years.</td></tr>
<tr><td>(ii) Extent to which the legislature’s procedures are well-established and respected.</td><td>B</td><td>Legislature procedures are stipulated in the Constitution and the Standing Orders of Parliament, and are respected most of the time</td></tr>
<tr><td>(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).</td><td>B</td><td>The Parliament normally complies with the allowed one month period to review the budget- the period between the budget speech and the signing of the Appropriation Act
<table>
<tr><td>Budget Year</td><td>Budget speech date</td><td>Date Appropriation Act signed by King</td></tr>
<tr><td>2007/8</td><td>22 February 2007</td><td>29 March 2007</td></tr>
<tr><td>2008/9</td><td>22 February 2008</td><td>31 March 2008</td></tr>
<tr><td>2009/10</td><td>27 February 2009</td><td>27 March 2009</td></tr>
</table></td></tr>
<tr><td>(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.</td><td>B</td><td>Rules for in-year amendments exist and are set out in 3.7.11. One budget supplement was issued in two of the three years under review, and two supplements in the third year under review</td></tr>
</table>

PI-28: Legislative scrutiny of external audit reports

3.7.12 In most countries, the legislature is the constitutionally mandated institution through which governments are held to account to the electorate. The Public Accounts Committee (PAC) was established through section 209 of the Constitution and Privileges Act, 1967. The PAC has an oversight role on the execution of the approved budget and the main function of the committee is to scrutinise all financial and accounting matters raised by the Auditor-General for interrogation and further investigation. The current PAC has many challenges of which some are limited experience of the members; inexistence of a PAC Charter that defines its roles and responsibilities; operating procedures and limited time allocated for PAC members to fulfil their roles. Furthermore its operations are hampered by a lack of resources, no access to infrastructure such as computers, no budget allocation for the function, no access to technical personnel who can assist in preparing and analysing the AG report or to provide guidance to the PAC (especially on reporting). Weak disciplinary measures and legislative support render the PAC virtually ineffective. It can only penalise Controlling Officers, who do not report incidences of mismanagement to courts for prosecution - a maximum penalty of E400. These challenge impact on the quality of the PAC function and the effectiveness of its reporting, which we consider needs significant improvement.

3.7.13 To fulfil its role, the PAC examines the Auditor-General annual reports that are issued to Parliament by the Minister of Finance. The PAC summons and questions accounting officers or Controlling Officers of all Ministries and departments on all matters raised by the AG. The officials are requested to explain and update on the progress of each item raised by the AG. The PAC, thereafter, prepares recommendations (on each item) that are presented and approved by Parliament before submission to the respective Ministries’ Controlling Officers for action.

3.7.14 The PAC usually receives the Auditor-General annual report in February, undertakes discussions with officials and issues recommendation to Parliament (as per dates in the table below) normally within 6 months. Subsequently Parliament approves the recommendations as indicated in the table.

Table 11: Parliamentary approval of PAC recommendations

	Date presented in Parliament	Date recommendations submitted to Parliament by PAC after scrutiny[13]	Date recommendations Approved by Parliament
31 March 2006	February 2007	23 May 2007	1 August 2007
31 March 2007	February 2008	9 May 2008	22 May 2008
31 March 2008	February 2009	Outstanding as at 24 July 2009	

3.6.15 The Auditor-General is responsible for follow up of the recommendation of the PAC. In addition, in the subsequent year, the PAC reviews how the recommendations were implemented by each Ministry. There is evidence in the PAC recommendation reports that some of the recommendations are implemented. However, it is worth noting that there is a slow pace of implementation of recommendations by the entities as the same issues are reported on from one year to the next.

Indicator	**Score**	**Brief Explanation**
PI-28 Legislative scrutiny of external audit reports	**B+**	
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	*B*	The PAC usually completes scrutiny of the Auditor-General report within 3 – 6 months of its receipt.
(ii) Extent of hearings on key findings undertaken by the legislature.	*A*	PAC summons and questions accounting officers or Controlling Officers of all Ministries and departments on all matters raised by the AG.
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	*B*	.PAC recommendations are issued to the Controlling Officers. There are reported incidences in AG report of matters that arise from one year to the next.

Conclusion

The Auditor-General performs financial audits on central government consolidated financials and transaction audits on Ministries. The AG does not cover Sub-National Government and PEs. The extent of his work is limited by inadequate capacity- number of staff and professional qualification - and low budget allocations. In addition, the AG does not apply recognised auditing standards – the auditing standards of the INTOSAI and International Standards on Auditing - which negatively impacts on the quality of audit work done. There is overly long period before audited financials are submitted to Parliament for review – 11 months – and the extent of implementation of the Auditor-General recommendations is low.

The PAC, on behalf of Parliament reviews the Auditor-General reports on a timely basis. However, the level of implementing the PAC recommendations by government entities is low.

Parliament reviews and approves the budget before start of the fiscal year.

[13] The date the PAC submits PAC Recommendations report to Parliament

3.8 Donor Practices

3.8.1 At present, the only donors and developing partners active in Swaziland are the European Union, the UN, World Bank, PEPFAR Fund, Global Fund, Japan and the Republic of China on Taiwan. As a group, these donors meet periodically – the last meeting having taken place in March 2009. While an Aid Policy exists, it is not operationalised. Direct agreements exist between donors and the government with only Republic of China providing direct budget support as per the table below. Other Donor assistance is provided to projects operated in public sector entities, particularly in the health sector in relation to the fight against HIV/Aids.

Table 12: Republic of China - Direct Budget Support

	2007/8	2008/9	2009/10
	US$ million		
Projections of direct budget support	7.076	21.000	20.000
Actual direct budget support	6.242	9.500	9.000
% (actual over projection)	88.2%	45.2%	45%
Source: Ministry of Economic Planning and Development			

3.8.2 There is no complete set of data on the support offered by donors to the projects and programmes in the Kingdom of Swaziland and there is limited information included in the budget. The government has engaged a consultant who is performing an exercise to establish the extent of such funding and also to recommend procedures to obtain timely information from donors on project support (budget estimates and actual amounts disbursed). The donors use their own systems to process project progress and programme funding.

3.8.3 Analysis of the government budget and information from the Treasury indicates that very small amounts of donor funds go through the national system. However as the total amount of donor funds is unknown it is difficult to rate this indicator in terms of the percentage actually passing through government systems.

D. Donor Practices		
D-1 Predictability of Direct Budget Support	No rating	Brief explanation
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature.		
(ii) In-year timeliness of donor disbursements.		
D-2 Financial information provided by donors for budgeting and reporting	No rating	
(i) Completeness and timeliness of budget estimates by donors for project support		
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support		.
D-3 Proportion of aid that is managed by use of national procedures	No rating	

Conclusion

The donor practices needs to be harmonized and strengthened to ensure existence of a coordinated system of support for government priorities and recording and monitoring of such donor support.

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4 Key PFM risks and proposed mitigating actions

4.1 Key PFM risks and proposed mitigation actions

4.1.1 The Government has started to define and implement key building blocks of reform – preparation of a new Public Finance Management Bill and Procurement Bill; review of the Local Government Act; 2010 budget cuts in most Ministries; recognition that the wage bill is unsustainable; and establishment of a new Swaziland Revenue Authority.

4.1.2 To further address the core issues, the Honourable Minister of Finance sets the right tone in the “Budget Speech 2010” by stressing the need for “business unusual” in "the most difficult budget I have ever presented". He struck a chord by emphasizing that this situation “allows us an opportunity to exploit the crisis and ensure that it acts as a catalyst for change in our economy. It allows us an opportunity to make some much needed reforms in our economy and allow the space for innovative policies to kick-start our recovery and growth. .... In years to come we will be judged by what we achieved for this country." Breaking from previous "hegemonic trends" by belt-tightening, breaking from past patterns of expenditure and embarking on a new path for change and reform will require discipline, a change in mindset and the need to be bold, the Honourable Minister Sithole said further.

4.1.3 He further emphasized the urgency to establish a consensus towards a program of action, through adoption of a “Fiscal Adjustment Roadmap”. Immediate actions already announced include a 14% cut in base line budgets; close monitoring of personnel expenditure and payroll audits; improving efficiency of spending; implementation of an Enhanced Voluntary Early Retirement Scheme (EVERS); and preparation of a comprehensive debt strategy for Swaziland. Sectoral focus areas have been and will continue to be health and education, as well as reducing the reliance on food aid.

4.1.4 The overall budget deficit presented for the 2010/11 fiscal year amounts to 13% of GDP – up from the preliminary outturn of about 5% of GDP for 2009/10. This increase in budget deficit is mainly the result of the decline in SACU revenues - the 2010 estimate of revenue, including grants, is down nearly 31% to E6.326 billion.

4.1.5 **To manage significant reduction in revenue with weak expenditure control systems requires an immediate focus on the following areas** – (i) contain personnel and other recurrent expenditures; (ii) careful execution of the capital program (of which low execution rates in the past has assisted to contain budget deficit levels); and (iii) increase revenue streams. The identified key weaknesses in the PFM system have a direct bearing on the fiscal challenges the government face at this time - an irresolute fiscal framework, weak expenditure controls, ineffective accounting, reporting and monitoring systems and tamed accountability mechanisms.

4.1.6 **Immediate priorities could include five actions** – (i) implement additional measures to contain the wage bill; (ii) effective implementation of the expenditure commitment system; (iii) reschedule or find alternate sources of financing for capital expenditure in non-priority sectors; (iv) strengthen the in-year monitoring system for revenue and expenditure; and (v) promulgate and start to implement the PFM Bill that embraces concepts designed to address root causes of fiduciary risk.

4.1.7 **More systemic PFM reforms over the medium to longer term could include** – (i) introduction of a robust medium term fiscal framework, supported by reliable forecasting models and data; (ii) tax administration reforms; (iii) debt management reforms, (iv) continued enhancement of procurement reforms, (v) financial system, reporting and auditing reforms, and (vi) enhanced donor coordination.

4.1.8 These are detailed in the rest of this section -

<table>
<tr><th>Ref.</th><th>Identified Risk</th><th>PEFA Ref</th><th>Key mitigating actions</th></tr>
<tr><td colspan="4">Credibility of the Budget</td></tr>
<tr><td>1</td><td>Ineffective use of commitment system that negatively impacts on expenditure controls resulting in over expenditure, increased chances of misappropriation and expenditure arrears</td><td>PI-4 (NS)</td><td>Enhance use of the commitment system
• Develop and implement a plan to fully use all modules of the commitment control system in all Ministries using the existing capacity to:
o Record and approve all commitments, including unsupported payments for wages, utilities, central transport charges, etc.
o Track and record payments for the commitments
o Report and monitor the arrears
• Eliminate manual ordering
• Train officials to effectively use the system</td></tr>
<tr><td colspan="4">Policy based budgeting</td></tr>
<tr><td>2</td><td>Weak fiscal planning
• No robust system for debt sustainability calculations to support a sound fiscal framework
• There is no information on loans and guarantees to PEs and SNGs
• No control accounts for loans and guarantees are maintained at office of Accountant-General</td><td>PI-12 (D+)</td><td>Introduce a robust fiscal framework
• Develop a fiscal planning framework, including a Medium Term Expenditure Framework</td></tr>
<tr><td></td><td></td><td>PI-12 (D+)</td><td>Enhance debt management processes
• Introduce a system and the requisite capacities to determine and maintain levels of sustainable debt
• Develop a policy to lend to Public Enterprises and Sub National government.
• Establish a process to record all loans and guarantees to and from the government, including to PEs and SNGs
• Develop a process to provide and reconcile information on loans and guarantees between debt unit and office of Accountant-General</td></tr>
<tr><td colspan="3"></td><td>Predictability and control in Budget Execution</td></tr>
<tr><td>3</td><td>Reduction in tax revenue due to inefficient tax systems , tax laws and SACU revenue</td><td>PI-15 (NS)</td><td>Establishment of Swaziland Revenue Authority –
• Introduce / upgrade tax systems to support registration of all tax payers; computation of tax due and outstanding taxes; penalties and interest; automated tax returns; assessment, enquiries and complaints
• Develop a strong enforcement process for tax levying, appeals, penalties and collections supported by legislation
• Enhance tax communication with tax payers by - printing tax information in both official languages; website.</td></tr>
</table>

		PI-13 (C+)	**Diversify revenue sources -** • Registration of all eligible tax payers for all sources of tax • Introduction of VAT
4	**Misappropriation due to weak procurement institution, policies and procedures**	**PI-20 (D+)**	**Continue with the reform to enhance procurement institutions, legislation and procedures** • Approve the Procurement Bill • Establish Swaziland National Tender Board • Strengthen government institutions to comply with procurement requirements, e.g. create positions for procurement officials in all MDAs • Extend application of procurement requirements to PEs and SNGs • Introduce post procurement audits • Plan to introduce e-procurement in future.
5	**Cash flow challenges due to use of inappropriate cash flow forecast models and inconsistent bank reconciliations**	**PI-22 (D)**	**Develop and apply a recognized cash forecasting model** incorporating cash balances, revenue, commitments and expenditures, debt servicing
		PI-22 (D)	**Enhance bank reconciliations procedures** • Perform bank and suspense account reconciliations monthly and ensure they are reviewed by a senior official • Computerise bank reconciliations
			Internal auditing
6	**Weak internal audit unit that would not adequately serve the purpose of enhancing financial management controls** • No legislative requirement for the department. • Department does not apply a recognised audit methodology for its work including reporting. • Low number of professionally qualified internal auditors • Lack of legal requirement to establish audit committees	**PI-20 (D+)**	**Continue to act on the planned reforms relating to internal audit unit -** • Develop internal audit methodology based on International Internal Auditing standards • Approve an audit charter • Develop more professional internal auditors (consider partnering with Swaziland Institute of Accountants) • Promulgate a law to require establishment and mandate of Internal Audit function • Legislate establishment and mandate of audit committees • Establish a unit in MoF to support audit committees
			Accounting and reporting
7.	**Poor quality financial reporting impacting negatively on accountability**	**PI-24 (C+)** **PI-25 (C+)**	**Enhance current financial reporting and transparency by:** • Addressing the differences in the Budget Estimates and Treasury Annual Reports • Recognising direct capital loans to projects when they occur • Presenting capital budget outturns statement by sector and by vote (as in recurrent) in Annual Report • Posting in the official government website the in-year budget reports, year-end financial statements and external audit reports • Update the 1993 Financial Management and Accounting Procedures Manual • Implementation of an integrated financial management information

			(IFMIS) system to properly integrate all existing systems and enhance the quality of information • Perform information security control audit
		PI-25 (C+)	**Develop long term plans to adopt recognised accounting standards to prepare financial statements -** • Decide on the standards to apply – it is recommend that the Government adopt IPSAS cash based as a start • Formalise a process of implementation of such standards
	:	**PI-25 (C+)**	**Revise the legislation to enhance quality of financial reporting (long term)** • Legislation to require preparation and audit of financial statements for all MDAs • Reporting timelines to be improved, e.g. annual financial statements to be submitted to the Accountant–general 3 months after year end and audited annual financial statements to be submitted to Parliament within 6 months after year-end • The responsible Minister to table an annual report in Parliament, which should include the audited annual financial statements
8	**Misappropriation due to inefficient payroll systems**	**PI-18 (D+)**	**Develop and implement the Human Resource system in all Ministries –** • The system should be integrated with the Payroll system • Regular payroll audits • Increases in new payroll records and / or salary scales to be authorized by the Minister of Finance
			Auditor-General (External auditing)
9	**Low quality audits**	**PI-21 (D)**	**Continue to act on the planned reforms relating to the Office of the Auditor-general -** • Adoption of recognised auditing standards, e.g. INTOSAI • Develop audit methodology based on the standards and equip staff on the methodology • Build capacity in the AG's office in order to perform quality audits in different areas - process could involve partnering with Swaziland Institute of Accountants and Tertiary Institutions • More timely issuing of audit reports by including in the annual report of MDAs the audit report on the financial statements
		PI-26 (C)	**Amend the Public Audit Act with the following independence enhancements (longer term)** • Require AG to audit all entities that receive funding from the government • Grant the AG the option not to audit parastatals, but to outsource such audits • Establishment of an AG Parliamentary Oversight Committee that would oversee Office of the AG in terms of budget and staff
			Public Accounts Committee
10	**Ineffective PAC due to** • low experience of the members on functions of PAC; • inexistence of PAC Charter that define the roles and responsibilities; operating procedures etc; • limited time allocated for PAC members to fulfil their roles;	**PI-27 (C+)** **PI-28 (B+)**	**Strengthen the PAC by** • Developing a charter to guide its operations • Designing and conducting training programs for PAC members – to include secondment opportunities • Resource the PAC secretariat with a budget, right skills and facilities • Extend the oversight role beyond the AG report and also enhance the quality of the PAC report

	• lack of resource - no budget allocated for PAC, no human resources especially technical personnel who can assist in preparation and analysis of the AG report and provision of guidance to PAC		
			Donor coordination
11	**Incomplete information on donor support to the Kingdom of Swaziland,** impacting on planning, budget formulation and determination of total grant support	**D-2 (NS)**	**Enhance donor coordination policy, process and unit** • Enhance policy framework and operations for donor coordination and reporting of all donor activity • Enhance Donor Unit staffing and operations • Host regular developing partners' meetings • Move towards use of country systems by donors in order to record, execute and monitor donor grants and loans through the Treasury system.
			Other recommendations
12	**Low number of qualified PFM professionals in the public sector** that negatively impacts on effectiveness of public sector financial management systems	**Note 1**	**To design and implement a capacity building project for PFM staff, e.g.** • Work with the Swaziland Institute of Accountants and tertiary institutions to address PFM training needs in their qualification systems • Introduce twinning arrangement between MOF, AG and other key PFM institutions with counterparts in the region
	Note 1: General observation across functions.		

(The key risk mitigation actions have subsequently been taken up in a draft Joint PFM Action Plan, delivered to the GOS in August 2011 – refer to Annex F)

5 Government Reform Process

5.1 General Description of recent and ongoing reforms

5.1.1 Over the last few years, the Government has, together with the support of Development Partners, initiated and undertaken a number of reforms in the area of public financial management aimed at improving public expenditure management and financial accountability. The initial reforms undertaken include drafting Public Finance Management Bill, Procurement Bill, Procurement regulations (approved by Parliament for implementation) and the introduction of a Medium Term Expenditure Framework.

5.1.2 The 2007 PEFA assessment found that Swaziland's PFM was challenged by a number of institutional and capacity constraints which potentially undermined the efficient fulfilment of systems and procedures. Weaknesses were found to exist in the extent of compliance with internal controls both because of inadequate information flows (including poorly integrated databases), and because of capacity constraints which led to poor budget predictability and in adequate oversights.

5.1.3 Key Reforms

5.1.3.1 Public Finance Management Bill

Realizing that the 1967 Finance Management and Audit Act was outdated and needed to be aligned with the new 2005 Constitution, the MOF through collaboration with UNDP and the World Bank embarked on a project to produce a draft PFM bill for the government in 2007. A final draft was submitted to the MOF by the World Bank in May 2008 (attached as Annex F). The ministry currently has this bill posted on its website for comments while the legal drafting is ongoing. This bill is considered pivotal in ushering a new approach in public financial management and accountability in government and should assist in closing gaps in the old act. The process is taking rather long however and needs to be fast-tracked to complement reforms in other areas.

5.1.3. 2 Procurement

The government procurement system has for a long time been challenged by weak controls in tendering and purchasing procedures. This has resulted in rising levels of corruption, wasteful expenditures and poor service delivery by government to the public. Through technical assistance from the UK Crown Agents the MOF has finished drafting a Procurement Bill currently being debated in parliament. A sequencing anomaly however seems to have occurred when (presumably because of the urgency) the Procurement Regulations were approved for implementation before the Act was passed. Some of the provisions of the new regulations are currently being implemented. Another revised set of regulations will need to be passed once the new act is promulgated.

5.1.3.3 Revenue Authority

Government is aware that in order to maintain public expenditures within acceptable levels, focus must not only be on the expenditure side but revenue enhancement must also be given priority. This is made more critical by the imminent renegotiation of the Southern African Customs Union (SACU) agreements which is believed to result in a much broader union based more along the SADC formation. This is more likely to mean lower SACU revenues which already account for more than 60% of total government revenues. In an effort to address some of these concerns, the government decided to initiate the formation of a Swaziland Revenue Authority as a strategic measure to improve the administration and collection of revenues. The Swaziland Revenue Authority Act of 2008 was signed into law in March 2008. Progress towards making this unit operational has not moved as intended. It took some time to have a Board of

Directors in place and it is taking even longer to put top management in place so that the unit can take over the administration of revenue collections. In the meanwhile labour unrest within the affected units of government is evident as they face an uncertain future.

5.1.3.4 **Commitment System**

The computerized payments system in government has an automatic stop-payment where there are insufficient funds in the budget to meet the invoice payment, but this is not effective since upstream problems with preventing agencies from incurring commitments where there is no budget still exist. To address this challenge a commitment system was developed and implementation commenced during 2006. Three years later (2009) the system is still not rolled out to all central government agencies. The system suffers from (amongst other challenges) lack of adequate technical support from the government Computer Services and technically challenged senior staff in government who have responsibility for passing payments (see also PI-20).

5.1.3.5 **Privatisation**

Public Sector Enterprises represent a significant sector of the country's economy at 8% of GDP. To improve service delivery and relieve government of the burden of sub-venting some of the PEs, a reform policy which advocated privatisation of some of the PEs was drafted and approved by Cabinet in 2004. This policy articulates government's approach in privatising some of the PEs. Two more documents were completed during 2006, "Implementing Privatisation" and "Privatisation Roadmap", which sought to provide more detail on how privatisation was to be implemented. Work continues in this area covering regulatory issues where deregulation has occurred and the drafting of necessary legislation for eventual consideration by parliament and promulgation.

5.1.3.6 **Public Service Management Program**

The civil service has grown by more than double over the past decade whereas the population it serves has hardly grown over the same period. This growth has come despite government's stated objective of keeping the size of the civil service small efficient and effective. Personnel costs are huge and have reached unsustainable levels and yet there is public outcry on poor service delivery in areas such as health and education. From 2002 the government has embarked on some holistic initiatives aimed at addressing these challenges but with limited or no success. An offer for a Voluntary Early Retirement Scheme (VERS) met with strong opposition from the public service unions who advised their members to reject it. This initiative was earmarked to go hand-in-hand with an Alternative Service Delivery framework where certain services were identified as candidates for outsourcing to reduce costs and improve service delivery. In the end this initiative met with limited success due to the failure of the VERS.

5.1.3.7 **Human Resource Management System (HR)**

As mentioned under PI-18 the MOPS has embarked on a project to computerize the personnel record of the civil service and integrate with the payroll system under Treasury. This exercise has been ongoing now for more than five years. Initial challenges with the development of the system by the selected service providers delayed implementation of the project but seemingly these were eventually resolved. Rollout to all ministries however is stalling (see report under PI-18) and needs to be energised so that all MDAs could be on the system. Challenges remain in technical support of the HR system from Computer Services and according to some users integration with the payroll system could be improved.

5.1.3.8 **Poverty Reduction Strategy**

The country's long term goals are articulated in the National Development Strategy (NDS). It contains the Vision 2022 which states that "Swaziland wants to be in the top 10% of countries with the highest human development index achievable through a vibrant economy, social justice and political stability". Poverty Reduction Strategy and Action Plan (PRSAP) has been developed which operationalises the Vision 2022 through proposed actions for reducing poverty with the ultimate aim of eradicating it completely by 2022. It has an ambitious goal of reducing it by more than 50% by 2015. Embedded in the PRSAP are the Millennium Development Goals (MDGs). The two policy documents (NDS and PRSAP) are the main guide to the work of the MEPD. In the implementation of PRSAP the intention is to introduce reforms that will make planning and budgeting PRO-POOR and PRO-GROWTH.

5.2 Institutional Factors Supporting Reform Planning and Implementation

5.2.1 For the successful implementation of the reform program, the buy-in and involvement of stakeholders in the PFM system is crucial. We believe that the necessary conditions exist at this time for the implementation of such a reform program.

5.2.2 We recommend that the Government embrace a reform program anchored in the following critical success factors - (i) visible and active political and top management support for reforms; (ii) government ownership of the reform process; (iii) careful sequencing; (iv) change management towards new methods/systems and good PFM practices; (v) technical assistance as needed; and (vi) sufficient physical and human resource capacities.

5.2.3 Government ownership and leadership of reform program - It is critical for the government to take leadership and ownership of the reform programs in order for them to be fully implemented. The level of ownership currently requires improvement as some of the reforms introduced in recent past have not been well or fully implemented.

5.2.4 Co-ordination and appropriate sequencing of reform program - There is a need to create formal structures that ensure regular consultation between the central agencies of government (MOF, MOEPD, and MOPS) to coordinate activities related to reforms. Otherwise the risk of some reforms working at cross-purposes or failing to have desired impact is high.

5.2.5 Capacities to continue implement the reforms - There are still significant capacity constraints, particularly in the line ministries to implement some of the reforms. This is particularly the case with financial management. Lack of familiarity with new concepts can adversely affect Government's ability to meet its PFM reform. Therefore, key institutions (MoF) need to ensure continued awareness and orientation towards new methods / systems and good practices developed and also continue to train and maintain organizational capacity.

5.2.6 PFM practices and reforms require extensive and progressive use of information technology. How this function is organized and capacitated in government will have a direct and significant bearing on the success or otherwise of the reform initiatives.

List of Annexes

Annex A

Summary of 2009 PFM Performance Indicators[14]

Indicator	Score	Brief Explanation
A. Credibility of the Budget		
PI-1. Aggregate expenditure out-turn compared to original approved budget	**A**	The percentage deviation between aggregated actual and budgeted expenditures as a proportion of the original approved budget were: 2006: 0.3% 2007: 3.3% 2008: 4.1%
PI-2. Composition of expenditure out-turn compared to original approved budget	**C**	Over the last 3 years, the variance of primary expenditure across budget hears were: 2006: 9.4% 2007: 8.2% 2008: 4.3%
PI-3. Aggregate revenue out-turn compared to original approved budget	**C**	Over the last three years, actual revenue as a % of budget estimates were: 2006: 111.97% 2007: 122.72% 2008: 89.32%
PI-4. Stock and monitoring of expenditure payment arrears	**NS**	
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	**NS**	There is no system to record stock of expenditure arrears.
(ii) Availability of data for monitoring the stock of expenditure payment arrears	**D**	There is no system to record and monitor stock of expenditure arrears.

14 The measurement of the scores in this annex follows closely the PEFA Guidelines (see www.pefa.org for a description of the calibration of scores for each indicator). For indicators with more than one dimension, a separate score is given for each dimension, and the overall score for the indicator is shown in bold and box-framed.

Indicator	Score	Brief Explanation
B. Comprehensiveness and Transparency		
PI-5. Classification of the budget	**B**	Budget formulation follows GFS standards and uses 14 and 13 COFOG functions for recurrent and capital budgets respectively
PI-6. Comprehensiveness of information included in budget documentation	**A**	The budget documents fulfils 8 of the 9 information benchmarks
PI-7. Extent of unreported government operations	**D+**	
(i) Level of unreported extra-budgetary expenditure	*A*	There are no extra-budgetary expenditures (other than donor-funded projects) in the Central Government.
(ii) Income/expenditure information on donor-funded projects	*D*	Income and expenditure data (both estimates and actual) on donor financed projects provided by the Treasury are not reconciled to other information sources and therefore it is difficult to confirm its accuracy and completeness.
PI-8. Transparency of Inter-Governmental Fiscal Relations	**B**	
(i) Transparency and objectivity in the horizontal allocation amongst Sub National Governments	*A*	The horizontal allocation of an unconditional grant for recurrent expenditures to Town Councils and Boards is determined by a fixed amount of E0.5 plus a formula based on the night-time population.
(ii) Timeliness and reliable information to SN governments on their allocations	*B*	Allocation are communicated to Town Councils and Boards before their budgets are finalised: before new financial year.
(iii) Extent of consolidation of fiscal data for general government	*D*	The aggregate transfers received by Town Councils and Boards are consolidated as a single figure in the Treasury Annual Report for the Ministry of Housing and Urban Development, which is normally produced within 6 months of the year end. However, there is no further consolidation of fiscal data of sub national government.
PI-9. Oversight of aggregate fiscal risk from other public sector entities.	**C**	
(i) Extent of central government monitoring of AGAs/PEs	*C*	Category A PEs submits to PEU a statement of their financial and operational performance per quarter within one month though the overall fiscal position is not consolidated.
(ii) Extent of central government monitoring of SN governments' fiscal position	*C*	The Ministry of Housing and Urban Development monitors annually the fiscal position of all Town Councils and Boards but there is no consolidated overview
PI-10. Public Access to key fiscal information	**B**	3 of the 6 listed elements of information are made available to the public.
C(i) Policy-Based Budgeting		
PI-11. Orderliness and participation in the annual budget process	**B**	
(i) Existence of, and adherence to, a fixed budget calendar	*C*	Annual budget circular exists but MDAs are given little time to finalise their submissions.
(ii) Guidance on the preparation of budget submissions	*C*	A Budget circular is issued to MDAs including the ceilings approved by the Cabinet. However, only a short period is granted between finalisation of ceilings and final budget submission
(iii) timely budget approval by the legislature	*A*	Approval of budget happened in March, before beginning of new financial year, in all the last 3 years. 2006/7: 26 March 2006 2007/8: 29 March 2007 2008/9: 31 March 2008
PI- 12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	**D+**	

Indicator	Score	Brief Explanation
(i) multi-year fiscal forecasts and functional allocations	*C*	Rolling forecast of fiscal aggregates are prepared annually (budget estimates) in year n for three years (n+1, n+2 and n+3) on the basis of the main categories of economic classification (salaries, travel, etc). However, the process fails to establish a clear link between objectives (strategies), programs and budgeted amounts.
(ii) scope and frequency of debt sustainability analysis	*D*	A Government approved debt sustainability analysis has not been conducted in past 3 years.
(iii) existence of costed sector strategies	*D*	Many of the sector strategies are long term. However, the investments have not been substantially costed, within fiscal aggregates
(iv) linkages between investment budgets and forward expenditure estimates	*C*	For many investments, the link between objectives (strategies) and their recurrent cost implications is weak.
C(ii) Predictability and Control in Budget Execution		
PI-13. Transparency of taxpayer obligations and liabilities	**C+**	
(i) Clarity and comprehensiveness of tax liabilities	C	Largely meets good practice criteria, but taxpayer registration is not legally entrenched and fair amount of discretion is possible.
(ii) Taxpayer access to information on tax liabilities and administrative procedures	B	Taxpayers can access data through tax offices, but the use of internet and user-friendly brochures to explain taxes and administrative procedures are limited.
(iii) Existence and functioning of a tax appeals mechanism	C	Although the tax appeals mechanism is in place and being used, its effectiveness is doubtful, given systems and administrative complexities.
PI-14. Effectiveness of measures for taxpayer registration and tax assessment	**D+**	
(i) Controls in taxpayer registration system	D	Control over taxpayer registration is onerous and difficult to measure, given the use of disparate and unlinked registration systems related to tax declarations.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	The use and enforcement of penalties are limited and ineffective given both capacity and systems limitations.
(iii) Planning and monitoring of tax audit and fraud investigation programs	D	Some evidence of programmes, but limited information to evaluate properly.
PI-15. Effectiveness in collection of tax payments	**NS**	
(i) Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	NS	No reconciliations are performed to determine the level of tax arrears. Data systems contain sufficient information to determine tax arrears and actually perform a monthly reconciliation.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	B	.Multiple bank accounts exist and the infrequent reconciliation process limits the effectiveness of funds transfers and reduces transparency of tax collection. We were informed that reconciliations are now being done on a monthly basis. Taxes collected are banked atleast on a weekly basis into the Treasury account.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	D	Reconciliations are performed annually and are a complex and onerous task. The reconciliation process is limited to deposit information and does not include assessments and arrears.
PI-16. Predictability in the availability of funds for commitment of expenditures	**D+**	
(i) Extent to which cash flows are forecast and monitored	*D*	Cash flow forecasts are prepared quarterly based on previous year's cash flows. The basis could be improved to forecast based on approved budget and quarterly cash flows.

Indicator	Score	Brief Explanation
(ii) Reliability and horizon of periodic in-year information to MPSAs on ceilings for expenditure	*B*	Expenditure warrants usually issued per quarter in advance.
(iii) Frequency and transparency of adjustments to budget allocations which are decided above the level of management of MPSAs	*C*	In –year budgets were done once per year during the period 2005/6 and 2006/7 and twice in 2007/8 through the MoF and Parliament with minimal or no transparency to the public
PI-17 Recording and management of cash balances, debt and guarantees	**C+**	
(i) Quality of debt data recording and reporting	*C*	Debts are recorded by MOF though reconciliations are only done once per year.
(ii) Extent of consolidation of the government's cash balances	*C*	Cash balances are drawn up quarterly
(iii) Systems for contracting loans and issuance of guarantees	*B*	Minister of Finance is responsible of contracting of loans and issuance of guarantees under a resolution of or an Act of Parliament. Swaziland Public Debt policy set the basis for loans and guarantees ceilings.
PI-18. Effectiveness of payroll controls	**D+**	
(i) Degree of integration and reconciliation between personnel records and payroll data.	*D*	While payroll system records are complete, the HR records are incomplete as the system has not been introduced in all MDAs.
(ii) Timeliness of changes to personnel records and the payroll	*D*	There are delays in processing changes sometimes resulting to more than 6 months delay in making the salary adjustment payment
(iii) Internal controls of changes to personnel records and the payroll.	*A*	There are adequate controls for authorisation and processing changes in personnel records in Payroll and HR systems
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	*D*	No auditing (internal or external) of the payroll has been done over the last three years.
PI-19. Competition, value for money and controls in procurement	**C+**	
(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	*A*	Accurate data on the method used to award public contracts exists and shows that more than 75% of contracts above the threshold are awarded on the basis of open competition.
(ii) Justification for use of less competitive procurement methods	*C*	Justification for use of less competitive methods for up to 20% or more of all procurements is currently weak or missing. This will improve as the Procurement Regulations, 2008, are more consistently used by all entities undertaking procurement.
(iii) Existence and operation of a procurement complaints mechanism	*D*	No process is defined to enable submitting and addressing complaints regarding the implementation of the procurement process
PI-20. Effectiveness of internal controls for non-salary expenditure	**D+**	
(i) Effectiveness of expenditure commitment controls.	*D*	The computer based commitment system introduced in 2006 is not effective.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures.	*D*	Financial Management & Accounting Procedures Manual issued in April 1993 sets out the accounting policies and procedures adopted within the Treasury department and line ministries. Most of the procedures are outdated as the Manual has not been updated. There is no evidence of existence of emergency procedures for purchases
(iii) Degree of compliance with rules for processing and recording transactions.	*C*	While a number of procedures are complied with, the internal audit report and Auditor-General reports (over the years) have reported incidences of non compliance. There is no evidence of existence of emergency procedures for purchases
PI-21. Effectiveness of internal audit	**D**	

Indicator	Score	Brief Explanation
(i) Coverage and quality of the internal audit function	*D*	There is no internal audit work plan. The focus of the department is pre-audit of transactions before they are paid, special reviews when requested, board of surveys (review and confirm existence and completeness of bonded assets), observe stock-taking and auction sales
(ii) Frequency and distribution of reports.	*D*	The internal audit reports are very irregular. However, the reports issued on the work done are distributed to the reviewed entity, the Ministry of Finance and the Auditor-General.
(iii) Extent of management response to internal audit findings.	*D*	There is no evidence that follow up is done on the recommendations in the reports issued by internal audit except to note that the Auditor-General, who does not rely on work of internal audit, normally follow up on the recommendations during external audit process
C(iii) Accounting, Recording and Reporting		
PI-22. Timeliness and regularity of accounts reconciliation	**D**	
(i) Regularity of bank reconciliations	*D*	The Bank accounts are only reconciled once at the end of the year.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	*D*	Suspense accounts are reconciled annually at the end of the year
PI-23. Availability of information on resources received by service delivery units	**D**	Very little information exists on resources received directly by service delivery unit.
PI-24. Quality and timeliness of in-year budget reports	**C+**	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	*C*	Monthly reports to MoF and quarterly reports to Parliament are comprehensive though they don't include commitments
(ii) Timeliness of the issue of reports	*A*	Reports are issued timely
(iii) Quality of information	*C*	The differences in Budget estimate data and Treasury Annual Reports as reported in P1-1 raised concern on accuracy of data.
PI-25. Quality and timeliness of annual financial statements	**C+**	
(i) Completeness of the financial statements	*C*	The central government consolidated financial statements exist but do not include essential information on assets and liabilities.
(ii) Timeliness of submission of the financial statements	*A*	The Central Government consolidated financial statements for the period 2007/8 was submitted for external audit within 6 months after year end
(iii) Accounting standards used	*C*	The financial statements are prepared consistently following the appropriation method included in Finance and Audit Act . No accounting standards are currently applied.
C(iv) External Scrutiny and Audit		
PI-26 Scope, nature and follow-up of external audit	**C**	
(i) Scope/nature of audit performed	*C*	The financial audit focuses on consolidated central government financial statements and transaction audit for individual ministries. However, no recognised auditing standards are adhered to.
(ii) Timeliness of submission of audit reports to legislature	*C*	Audit reports are normally submitted to Parliament in February: 11 months after year end.
(iii) Evidence of follow-up on audit recommendations	*C*	A process to follow up AG recommendations exists though the extent of implementation is low as some of the issues are reported from one year to the next.
PI-27 Legislative scrutiny of the annual budget law	**C+**	
(i) Scope of the legislature's scrutiny.	*C*	Parliament involved in review when detailed budget proposals have been finalised. Fiscal policy statements only issued once in three years.

Indicator	Score	Brief Explanation
(ii) Extent to which the legislature's procedures are well-established and respected.	*B*	Legislature procedures are stipulated in the Constitution and the Standing Orders of Parliament and are respected most of the time
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).	*B*	The Parliament normally complies with the allowed one month period to review the budget: the period between budget speech and signing of Appropriation Act Budget Year / Budget speech date / Date Appropriation Act signed by King 2007/8 / 22 February 2007 / 29 March 2007 2008/9 / 22 February 2008 / 31 March 2008 2009/10 / 27 February 2009 / 27 March 2009
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	*B*	Rules for in-year amendments exists and are set out in 3.7.11. . Supplementary budgets were only issued once in 2005/6 and 2006/7 and twice in 2007/8.
PI-28 Legislative scrutiny of external audit reports	**B+**	
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	*B*	The PAC usually completes scrutiny of the Auditor-General report within 3 – 6 months of its receipt.
(ii) Extent of hearings on key findings undertaken by the legislature.	*A*	PAC summons and questions accounting officers or Controlling Officers of all Ministries and departments on all matters raised by the AG.
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	*B*	PAC recommendations are issued to the Controlling Officers. There are reported incidences in AG report of matters that arise from one year to the next.
D. Donor Practices		
D-1 Predictability of Direct Budget Support	No rating	
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature.		
(ii) In-year timeliness of donor disbursements.		
D-2 Financial information provided by donors for budgeting and reporting	No rating	
(i) Completeness and timeliness of budget estimates by donors for project support		
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support		.
D-3 Proportion of aid that is managed by use of national procedures	No rating	

Annex B

Comparison between 2007[15] and 2009 Assessments

Indicator	2007 Assessment	2009 Assessment	Progress between 2007 and 2009
A. Credibility of the Budget			
PI-1. Aggregate expenditure out-turn compared to original approved budget	**A**	**A**	No change
PI-2. Composition of expenditure out-turn compared to original approved budget	**D**	**C**	There was improvement as data below: 2003: 63.82% 2006: 9.4% 2004: 21.94% 2007: 8.2% 2005: 14.72% 2008: 4.3%
PI-3. Aggregate revenue out-turn compared to original approved budget	**A**	**C**	Comparisons for out-turn were as follows: 2003/04 111.29% 2006: 111.97% 2004/05 98.81% 2007: 122.72% 2005/06 92.97% 2008: 89.32%
PI-4. Stock and monitoring of expenditure payment arrears	**D+**	**NS**	
(i) Stock of expenditure payment arrears and a recent change in the stock	**C**	**NS**	There was no system/ process to record stock of expenditure arrears. PEFA 2007 rating was based on estimates done by IMF[16]
(ii) Availability of data for monitoring the stock of expenditure payment arrears	**D**	**D**	
B. Comprehensiveness and Transparency			
PI-5. Classification of the budget	**B**	**B**	No change
PI-6. Comprehensiveness of information included in budget documentation	**B**	**A**	Only one of the information benchmarks not disseminated for period 2006 – 2008 compared to 4 in 2003 – 2005.
PI-7. Extent of unreported government operations	**D+**	**D+**	No change
(i) Level of unreported extra-budgetary expenditure	**A**	**A**	No change
(ii) Income/expenditure information on donor-funded projects	**D**	**D**	No change
PI-8. Transparency of Inter-Governmental Fiscal Relations	**C(*)**	**B**	
(i) Transparency and objectivity in the horizontal allocation amongst Sub National Governments	Uncertain	**A**	The horizontal allocation of an unconditional grant for recurrent expenditures to Town Councils and Boards is determined by a fixed amount of E0.5 plus a formula based on the night-time population.
(ii) Timeliness and reliable information to SN governments on their allocations	**A**	**B**	Allocation are communicated to Town Councils and Boards before their budgets are finalised: before new financial year.

[15] Ratings per EC PEFA assessment
[16] IMF, Country Report No. 06/106, idem, page 9 and Table 1

(iii) Extent of consolidation of fiscal data for general government	D	D	The aggregate transfers received by Town Councils and Boards are consolidated as a single figure in the Treasury Annual Report for the Ministry of Housing and Urban Development, which is normally produced within 6 months of the year end. However, there is no further consolidation of fiscal data of sub national government.
PI-9. Oversight of aggregate fiscal risk from other public sector entities.	**C**	**C**	No change
(i) Extent of central government monitoring of AGAs/PEs	C	C	No change
(ii) Extent of central government monitoring of SN governments' fiscal position	C	C	No change
PI-10. Public Access to key fiscal information	**C**	**B**	The 2007 assessment indicate that 4 types of fiscal information were being made available to public though the rating was C
C(i) Policy-Based Budgeting			
PI-11. Orderliness and participation in the annual budget process	**C+**	**B**	
(i) Existence of, and adherence to, a fixed budget calendar	C	C	No change
(ii) Guidance on the preparation of budget submissions	B	C	Unsure about 2007 rating
(iii) timely budget approval by the legislature	C	A	Budget was approved before beginning of financial year for period under review and only once for period 2003 - 2006,
PI- 12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	**D+**	**D+**	No change
(i) Multi-year fiscal forecasts and functional allocations	C	C	No change
(ii) Scope and frequency of debt sustainability analysis	D	D	No change
(iii) Existence of costed sector strategies	D	D	No change
(iv) Linkages between investment budgets and forward expenditure estimates	C	C	No change
C(ii) Predictability and Control in Budget Execution			
PI-13. Transparency of taxpayer obligations and liabilities	**B**	**C+**	
(i) Clarity and comprehensiveness of tax liabilities	A	C	Largely meets good practice criteria, but taxpayer registration is not legally entrenched and fair amount of discretion is possible.
(ii) Taxpayer access to information on tax liabilities and administrative procedures	B	B	No change
(iii) Existence and functioning of a tax appeals mechanism	C	C	No change
PI-14. Effectiveness of measures for taxpayer registration and tax assessment	**D+**	**D+**	No change
(i) Controls in taxpayer registration system	D	D	No change
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	B	C	Weakness still exist on use and enforcement of penalties

(iii) Planning and monitoring of tax audit and fraud investigation programmes	**D**	**D**	No change
PI-15. Effectiveness in collection of tax payments	**NS**	**NS**	No change
(i) Collection ratio for gross tax arrears	**NS**	**NS**	No change
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	**B**	**B**	No change
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	**C**	**D**	Inconsistency exist on supporting evidence where 2007 assessment indicate that reconciliations were done monthly compared to annually in 2009
PI-16. Predictability in the availability of funds for commitment of expenditures	**D+**	**D+**	No change
(i) Extent to which cash flows are forecast and monitored	**D**	**D**	No change
(ii) Reliability and horizon of periodic in-year information to MPSAs on ceilings for expenditure	**D**	**B**	Expenditure warrants are now respected
(iii) Frequency and transparency of adjustments to budget allocations above the level of management of MPSAs	**C**	**C**	Improvement in the number of supplementary issued from frequent adjustments to 1 for period 2005/6 and 2006/7 and two in 2007/8
PI-17 Recording and management of cash balances, debt and guarantees	**C**	**C+**	
(i) Quality of debt data recording and reporting	**D**	**C**	Debts are recorded by MoF but there are gaps as not all PE loans are recorded: incomplete information
(ii) Extent of consolidation of the government's cash balances	**A**	**C**	Similar situation to 2007 PEFA though the rating was incorrect
(iii) Systems for contracting loans and issuance of guarantees	**D**	**B**	A public debt policy exists
PI-18. Effectiveness of payroll controls	**C+**	**D+**	
(i) Degree of integration and reconciliation between personnel records and payroll data.	**D**	**D**	No change
(ii) Timeliness of changes to personnel records and the payroll	**A**	**D**	There are delays in processing HR changes at the line ministries resulting to more than 6 months delays
(iii) Internal controls of changes to personnel records and the payroll.	**B**	**A**	Adequate controls exists for authorisation and processing changes in personnel records
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	**D**	**D**	No change
PI-19. Competition, value for money and controls in procurement	**D+**	**C+**	
(i) Use of open competition for award of contracts above the nationally established monetary threshold for small purchases	**D**	**A**	There is improvement compared to previous assessment. Currently accurate data is maintained on the method used to award public contracts
(ii) Justification for use of less competitive procurement methods	**C**	**C**	No change
(iii) Existence and operation of a procurement complaints mechanism	**D**	**D**	No change

PI-20. Effectiveness of internal controls for non-salary expenditure	**D+**	**D+**	No change
(i) Effectiveness of expenditure commitment controls.	**D**	**D**	No change
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures.	**D**	**D**	No change
(iii) Degree of compliance with rules for processing and recording transactions.	**C**	**C**	No change
PI-21. Effectiveness of internal audit	**D+**	**D**	A process has been initiated to strengthen the internal audit department which is inadequate.
(i) Coverage and quality of the internal audit function	**D**	**D**	No change
(ii) Frequency and distribution of reports.	**B**	**D**	The internal audit reports are very irregular. However, the reports issued on the work done are distributed to the reviewed entity, the Ministry of Finance and the Auditor-General.
(iii) Extent of management response to internal audit findings.	**C**	**D**	There is no evidence that follow up is done on the recommendations in the reports issued by internal audit except to note that the Auditor-General, who does not rely on work of internal audit, normally follow up on the recommendations during external audit process
C(iii) Accounting, Recording and Reporting			
PI-22. Timeliness and regularity of accounts reconciliation	**D**	**D**	No change
(i) Regularity of bank reconciliations	**D**	**D**	No change
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	**D**	**D**	No change
PI-23. Availability of information on resources received by service delivery units	**NS**	**D**	As in the previous assessment, very little information exists on resources received directly by service delivery units.
PI-24. Quality and timeliness of in-year budget reports	**D**	**C+**	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	**D**	**C**	Monthly monitoring reports are issued to MoF and quarterly reports to Parliament.
(ii) Timeliness of the issue of reports	**D**	**A**	Reports are being issued timely
(iii) Quality of information	**D**	**C**	The information is reliable
PI-25. Quality and timeliness of annual financial statements	**D+**	**C+**	
(i) Completeness of the financial statements	**C**	**C**	No change
(ii) Timeliness of submission of the financial statements	**D**	**A**	The central government consolidated financial statements are submitted for external audit within 10 months after year end.
(iii) Accounting standards used	**D**	**C**	The financial statements are prepared consistently following the appropriation method included in Finance and Audit Act . No accounting standards are currently applied.
C(iv) External Scrutiny and Audit			
PI-26 Scope, nature and follow-up of external audit	**D+(**)**	**C**	

(i) Scope/nature of audit performed	**D**	**C**	Consolidated central government financial statement are audited and transaction audit is performed in many ministries compared to previous periods.
(ii) Timeliness of submission of audit reports to legislature	**C**	**C**	No change
(iii) Evidence of follow-up on audit recommendations	**C**	**C**	No change
PI-27 Legislative scrutiny of the annual budget law	**D+**	**C+**	
(i) Scope of the legislature's scrutiny.	**C**	**C**	No change
(ii) Extent to which the legislature's procedures are well-established and respected.	**D**	**B**	There is improvement in adhering to the legislature established procedures.
(iii) Adequacy of time for the legislature to provide a response to budget proposals	**C**	**B**	The legislature normally review the budget within one month
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	**D**	**B**	There is improvement in that supplementary were only issued once in 2005/6 and 2006/7 and twice in 2007/8
PI-28 Legislative scrutiny of external audit reports	**C+**	**B+**	
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	**C**	**B**	There is improvement in that the PAC finalise review of Auditor-General reports within 3 – 6 months.
(ii) Extent of hearings on key findings undertaken by the legislature.	**C**	**A**	Hearings were done for all ministries during period of review.
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	**B**	**B**	No change
D. Donor Practices			
D-1 Predictability of Direct Budget Support			The three donor indicators were not assessed in 2007. It is still evident that currently there is no coordinated donor coordination process.
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature.			
(ii) In-year timeliness of donor disbursements.			
D-2 Financial information provided by donors for budgeting and reporting			
(i) Completeness and timeliness of budget estimates by donors for project support			
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support			
D-3 Proportion of aid that is managed by use of national procedures			

Annex C

Background Data for Evaluation of PI-1, PI-2, and PI-3

Table 1 - Fiscal years for assessment

	Year 1 =	2006
	Year 2 =	2007
	Year 3 =	2008

Table 2

Data for year =	**2005/06**	**(,000)**			
functional head	**budget**	**actual**	difference	absolute	percent
01 Statutory	58,792	62,569	3,777	3,777	6.4%
03 Cabinet	39,152	30,451	-8,701	8,701	22.2%
05 Police	279,631	363,677	84,046	84,046	30.1%
06 Deputy Prime Minister	61,456	62,777	1,321	1,321	2.1%
07 Foreign Affairs & Trade	170,727	160,684	-10,043	10,043	5.9%
08 Defence	349,427	411,773	62,346	62,346	17.8%
10 Natural Resources & En.	191,217	212,759	21,542	21,542	11.3%
20 Agriculture	195,848	176,257	-19,591	19,591	10.0%
23 Economic Planning & Dev.	251,833	234,193	-17,640	17,640	7.0%
24 Housing & Urban Dev.	182,888	167,601	-15,287	15,287	8.4%
26 Fire & Emergency	29,730	47,635	17,905	17,905	60.2%
28 Enterprise & Emply.	110,178	94,700	-15,478	15,478	14.0%
30 Education	1,233,423	1,174,652	-58,771	58,771	4.8%
41 Public Service	43,485	39,930	-3,555	3,555	8.2%
45 Health	395,647	441,087	45,440	45,440	11.5%
46 Justice	49,018	48,734	-284	284	0.6%
49 Correctional Services	131,237	136,401	5,164	5,164	3.9%
50 Home Affairs	38,213	39,380	1,167	1,167	3.1%
51 Swazi National Treasury	89,417	89,493	76	76	0.1%
53 Public Works	1,014,459	940,790	-73,669	73,669	7.3%
99 (= sum of the rest)	260,426	223,696	-36,730	36,730	14.1%
total expenditure	5,176,204	5,159,239	-16,965	16,965	0.3%
composition variance	5,176,204	5,159,239		502,533	9.7%

Table 3

Data for year =	**2006/07**	**(,000)**			
functional head	**budget**	**actual**	difference	absolute	percent
01 Statutory	69,453	85,686	16,233	16,233	23.4%
03 Cabinet	45,864	40,427	-5,437	5,437	11.9%
05 Police	309,531	377,425	67,894	67,894	21.9%
06 Deputy Prime Minister	49,129	36,642	-12,487	12,487	25.4%
07 Foreign Affairs & Trade	124,116	151,641	27,525	27,525	22.2%
08 Defence	381,656	392,568	10,912	10,912	2.9%
10 Natural Resources & En.	352,584	221,105	-131,479	131,479	37.3%
20 Agriculture	193,042	186,839	-6,203	6,203	3.2%
23 Economic Planning & Dev.	221,942	319,456	97,514	97,514	43.9%
24 Housing & Urban Dev.	135,554	101,240	-34,314	34,314	25.3%
26 Fire & Emergency	39,975	41,402	1,427	1,427	3.6%
28 Enterprise & Emply.	76,883	53,298	-23,585	23,585	30.7%

30 Education	1,337,529	1,332,553	-4,976	4,976	0.4%
41 Public Service	57,144	55,543	-1,601	1,601	2.8%
45 Health	548,700	539,226	-9,474	9,474	1.7%
46 Justice	53,974	58,366	4,392	4,392	8.1%
49 Correctional Services	136,090	135,875	-215	215	0.2%
50 Home Affairs	44,139	44,537	398	398	0.9%
51 Swazi National Treasury	86,304	70,202	-16,102	16,102	18.7%
53 Public Works	850,519	740,076	-110,443	110,443	13.0%
99 (= sum of the rest)	372,485	322,236	-50,249	50,249	13.5%
total expenditure deviation	5,486,613	5,306,343	-180,270	180,270	3.3%
composition variance	5,486,613	5,306,343		632,860	11.5%

Table 4

Data for year =	**2007/08**	**(,000)**			
functional head	**budget**	**actual**	difference	absolute	percent
01 Statutory	94,437	91,669	-2,768	2,768	2.9%
03 Cabinet	57,380	55,379	-2,001	2,001	3.5%
05 Police	370,642	421,138	50,496	50,496	13.6%
06 Deputy Prime Minister	18,153	14,263	-3,890	3,890	21.4%
07 Foreign Affairs & Trade	196,565	186,467	-10,098	10,098	5.1%
08 Defence	435,748	418,399	-17,349	17,349	4.0%
10 Natural Resources & En.	571,308	422,770	-148,538	148,538	26.0%
20 Agriculture	234,612	198,792	-35,820	35,820	15.3%
23 Economic Planning & Dev.	325,536	323,672	-1,864	1,864	0.6%
24 Housing & Urban Dev.	200,653	174,302	-26,351	26,351	13.1%
26 Fire & Emergency	49,958	50,891	933	933	1.9%
28 Enterprise & Emply.	82,599	74,370	-8,229	8,229	10.0%
30 Education	1,533,736	1,522,131	-11,605	11,605	0.8%
41 Public Service	56,306	50,416	-5,890	5,890	10.5%
45 Health	603,439	580,507	-22,932	22,932	3.8%
46 Justice	49,331	27,743	-21,588	21,588	43.8%
49 Correctional Services	157,402	148,928	-8,474	8,474	5.4%
50 Home Affairs	55,992	55,786	-206	206	0.4%
51 Swazi National Treasury	96,271	90,749	-5,522	5,522	5.7%
53 Public Works	1,083,498	1,178,598	95,100	95,100	8.8%
99 (= sum of the rest)	602,163	507,215	-94,948	94,948	15.8%
total expenditure deviation	6,875,729	6,594,185	-281,544	281,544	4.1%
composition variance	6,875,729	6,594,185		574,602	8.4%

Annex D

Evidence Used for Indicators

Indicator	Specific Information Sources Used
A. Credibility of the Budget	
1. Aggregate expenditure out-turn compared to original approved budget	The Annual Budget Estimates 2006, 2007, 2008 Treasury Annual Reports 2006, 2007, 2008 Management Reports from the Treasury Computer System
2. Composition of expenditure out-turn compared to original approved budget	
3. Aggregate revenue out-turn compared to original approved budget	
4. Stock and monitoring of expenditure payment arrears	
B. Comprehensiveness and Transparency	
5. Classification of the budget	Chart of Accounts The Annual Budget Estimates 2006, 2007 and 2008
6. Comprehensiveness of information included in budget documentation	The Annual Budget Estimates 2006, 2007 and 2008 Budget speech MTBPS 2006/07 – 2008/09 and 2008/09 – 2010/11
7. Extent of unreported government operations	Treasury Annual Reports 2006, 2007, 2008 Public Enterprises Unit Quarterly Reports
8. Transparency of Inter-Governmental Fiscal Relations	Public Enterprises Annual Report The Urban Government Act The Public Enterprises Control and Monitoring Act
9. Oversight of aggregate fiscal risk from other public sector entities.	Public Enterprises Annual Report
10. Public access to key fiscal information	Guidelines for the public on government information Websites Auditor-General Annual Reports 2006, 2007 and 2008
C (i) Policy-Based Budgeting	
11. Orderliness and participation in the annual budget process	Appropriation Acts 2006, 2007, 2008 and 2009 Budget Circulars
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	The Annual Budget Estimates 2006, 2007 and 2008 Budget speech MTBPS 2006/07 – 2008/09 and 2008/09 – 2010/11
C (ii) Predictability and Control in Budget Execution	
13. Transparency of taxpayer obligations and liabilities	Legislative Acts for Income Tax, Customs and Excise, Stamp Duties, Transfer Duties, Unemployment Insurance SACU Guidelines Tax interpretation guidelines
14. Effectiveness of measures for taxpayer registration and tax assessment	
15. Effectiveness in collection of tax payments	
16. Predictability in the availability of funds for commitment of expenditures	Management reports of the Investment Committee Quarterly cash forecasts Treasury warrants
17. Recording and management of cash balances, debt and guarantees	Treasury Annual Reports 2006, 2007, 2008 Central Bank Quarterly Reviews The Constitution
18. Effectiveness of payroll controls	Public Service Guidelines The Financial Management & Accounting Procedures Manual
19. Competition, value for money and controls in procurement	Procurement regulation 2008 Procurement Bill (version 5) Tender Board publications

Indicator	Specific Information Sources Used
20. Effectiveness of internal controls for non-salary expenditure	The Financial Management & Accounting Procedures Manual Auditor-General Annual Report 2006, 2007, 2008 Internal auditors reports
21. Effectiveness of internal audit	Internal audit reports and activity report
C (iii) Accounting, Recording and Reporting	
22. Timeliness and regularity of accounts reconciliation	Treasury Annual Reports 2006, 2007, 2008 Examples of bank reconciliations
23. Availability of information on resources received by service delivery units	Budget Estimates
24. Quality and timeliness of in-year budget reports	Quarterly Ministry reports to Parliament Monthly Ministries returns to MoF
25. Quality and timeliness of annual financial statements	Treasury Reports 2006. 2007 and 2008
C (iv) External Scrutiny and Audit	
26. Scope, nature and follow-up of external audit	2006, 2007 and 2008 Auditor-General's annual reports and reviews of Annual Financial Statements
27. Legislative scrutiny of the annual budget law	Review of information from Estimates Committee
28. Legislative scrutiny of external audit reports	PAC reports to Parliament on Auditor-General's reports
D. Donor Practices	
D-1 Predictability of Direct Budget Support	• Interview with UNDP personnel • Information from Donor Aid unit in Ministry of Economic Planning and Development
D-2 Financial information provided by donors for budgeting and reporting on project and programme aid	
D-3 Proportion of aid that is managed by use of national procedures	

Annex E

List of Stakeholders Met

NAME	ORGANIZATION	DESIGNATION
Philda Msibi	Department of taxes	Commissioner of Taxes
Maxwell M Lukhele	Department of Taxes	Deputy Commissioner of Taxes
Sizakele Phumelele Masuku	Ministry of Finance	Director of Corporate Services & Supply Chain Management
Thabsile Mlangeni	Ministry of Finance	Principal Finance Officer
Samuel Mbingo	Treasury	
Khabonina Mabuza	Treasury	Accountant General
Andreas Dlamini	Internal Audit	Director of Internal Audit
Robert T Hlophe	Internal Audit	
Janet Mzungu	Ministry of Finance	Principal Finance Officer
Jabu Hadzebe	Treasury	
Philemon Dlamini	Treasury	
Thulisile Gamedze	Treasury	
Anson Dlamini	Treasury	
Cebile Nhlabatsi	Ministry of Public Service	
Constance Vilakati	Ministry of Public Service	
Hadebe Africa	Auditor-General	Auditor-General
Themba P Nxumalo	Auditor-General	Deputy Auditor-General
Timothy Masuku	Auditor-General	
Thuli Dladla	PAC	PAC Chairman
Mkhululi Dlamini	PAC	PAC Member
Ncengencenge Dlamini	PAC	PAC Member
Mfanawema Khusi Dlamini	PAC	PAC Member
T.V Mpanza	Customs and Excise	
S.M. Dlamini	Ministry of Economic Planning & Development	Permanent Secretary
N.T. Tibane	Ministry of Economic Planning & Development	Chief Economist
Barnabas Mhlongo	Swaziland Institute of Accountants	Chief Executive
C M Dlamini	Tax Department	Assistant Commissioner Investigations

M Marrengane	Tax Department	Assistant Commissioner Policy Development
R M Zwane	Tax Department	Assistant Commissioner Administration
N Nyawo	Tax Department	Principal Tax Officer
P. P Mamba	Tax Department	Principal Tax Officer
N Tsabedze	Tax Department	Principal Tax Officer
S Mpamele	Customs and Excise	Customs Administration
T Mabuza	Customs and Excise	Post Clearance Audit
L Gamedze	Customs and Excise	ASYCUDA
T Dlamini	Customs and Excise	Statistics - Customs
N Nkambule	Customs and Excise	Assistance Customs Officer
S Ndizimandze	Customs and Excise	Customs Officer
E Vilakati	Customs and Excise	Tariff Sub-division
M Zwane	Ministry of Finance	SACU
N Mngomezulu	Treasury	Reconciliations
Nokuthula Dlamini		
John Blunt	Crown Agents	Consultant

Annex F

SWAZILAND – Joint PFM Action Plan								
Ref.	**Key risks**	**2009 PEFA Status**	**Key mitigating actions**	**Unit Responsible**	**Indicator Targets** (Detail requirements to achieve PEFA score as per methodology)			**TA provided by**
					FY12	**FY13**	**FY14**	
Overall PFM Reforms								
1	Ineffective MoF structure	n/a	Reorganization of the Ministry of Finance	MoF	Implementation of IMF 2007 recommendations on the internal structure of the Ministry of Finance.			IMF, AFRITAC-South
2	Inadequate capacity for PFM reform	n/a	Hiring of an advisor to the Minister of Finance to supervise PFM reforms implementation	Mof	Advisor selected among the IMF roster of potential advisors			Funded by the AfDB
3	Ineffective PFM Bill	n/a	Table new PFM Bill in Parliament, in line with IMF and World Bank recommendations	MoF	Agree fundamental concepts, finalize drafting and table in Parliament	Proceed with implementation of new PFM Act		IMF AFRITAC-SOUTH
Credibility of the Budget								
4	Ineffective use of commitment system that negatively impacts on expenditure controls resulting in over expenditure, increased chances of misappropriation and expenditure arrears	PI-4 (NS)	Enhance use of the commitment system • Develop and implement a plan to fully use all modules of the commitment control system in all Ministries using the existing capacity to: ○ Record and approve all commitments, including unsupported payments for wages, utilities, central transport charges, etc. ○ Track and record payments for the commitments ○ Report and monitor the arrears	Accountant-general	System implemented Compile and validate list of all arrears to March 31, 2012 and adopt arrears clearance plan in line with IMF Staff Monitored	PI-4 = C	PI-4 = B	IMF, WORLD BANK

SWAZILAND – Joint PFM Action Plan								
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					FY12	**FY13**	**FY14**	
			• Eliminate manual ordering • Train officials to effectively use the system		Program. Treasury instruction issued Key officials trained	No manual orders	No manual orders	
5	Incomplete in-year fiscal reports	n/a	Improve the coverage of fiscal reports		Develop in-year fiscal reporting	Extent coverage to include local governments and publicly-owned enterprises		IMF
Policy based budgeting								
6	Weak fiscal planning • No robust system for debt sustainability calculations to support a sound fiscal framework • There is no information on loans and guarantees to PEs and SNGs • No control accounts for loans and consolidated information on guarantees are maintained at office of Accountant-General	PI-12(i) (C)	Introduce a robust fiscal framework • Create a Macro Fiscal Unit in Ministry of Finance. The unit will report to the budget director and would provide assistance during budget preparation (e.g., revenue forecasting) • Developing a Medium-Term Fiscal and Expenditure Frameworks (MTFF and MTEF). These frameworks would bring the budget within a more predictable and consistent medium-term strategy, anchored on fiscal sustainability.	PS Finance Director Budget	Macro Fiscal Unit created and basic methodologies established Basic MTFF introduced	Align budget preparation on the MTEF	PI-12(i) = B Conceptual design for program based MTEF finalized	IMF AFRITAC SOUTH
		PI-12(ii) (D)	Enhance debt management processes • Introduce a system and the requisite capacities to determine and maintain levels of sustainable debt • Develop a policy to lend to Public Enterprises and Sub National government. • Establish a process to record all loans and guarantees to and from the government, including to PEs and SNGs	Debt Management	Associated policies and processes developed and confirmed	Implementation completed	PI-12(ii) = B	WORLD BANK

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					FY12	**FY13**	**FY14**	
			• Develop a process to provide and reconcile information on loans and guarantees between debt unit and office of Accountant-General					
Predictability and control in budget execution								
7	Reduction in tax revenue due to inefficient tax systems , tax laws and SACU revenue	PI-15 (NS)	Establishment of Swaziland Revenue Authority – • Organize the SRA functionally ensuring a strong headquarters. Integrate domestic taxes into a single domestic tax department. • Develop a unified TIN to be launched with the implementation of VAT (ensuring that the TIN module is a part of the integrated tax administration system (ITAS) procured for the VAT launch). Review the existing taxpayer master file and assess whether a complete re-registration process is needed.. • Plan a staged introduction of self-assessment for all categories of income taxpayers commencing with corporate entities under the management of the LTU. • Identify and aggressively pursue non-filers for both income tax and sales tax. • Bolster collection enforcement efforts to collect tax arrears older than one year. • Retrain assessors as auditors in preparation for redeployment as self-assessment is rolled out across all categories of income taxpayer. • Build capacity in the customs department through planned training. • Move to risk-based decision making and intervention in the customs environment.	Swaziland Revenue Authority	Creation of a Large Taxpayer Unit. Initiate steps to re-organize the SRA according to a functional classification.	PI-15 = C	PI-15 = B	IMF
		PI-14(i	Diversify revenue sources - • Launch a campaign to identify businesses not	Swaziland Revenue	Implementation of processes to		PI-14(i and iii) = B	IMF

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					FY12	**FY13**	**FY14**	
		and iii) (D)	registered for taxes. • Introduction of VAT	Authority	ensure complete registration Implementation of the VAT			
8	Misappropriation due to weak procurement institution, policies and procedures	PI-19 (iii) (D)	Continue with the reform to enhance procurement institutions, legislation and procedures • Approve the Procurement Bill • Establish Swaziland National Tender Board • Strengthen government institutions to comply with procurement requirements, e.g. create positions for procurement officials in all MDAs • Extend application of procurement requirements to PEs and SNGs • Introduce post procurement audits • Plan to introduce e-procurement in future.	Ministry of Finance	Legal framework, key institutions and processes established	Implementation of key reforms completed	PI-19 = B+	WORLD BANK + DONORS
9	Cash flow challenges due to use of inappropriate cash flow forecast models and inconsistent bank reconciliations	PI-16(i) (D)	Develop and apply a recognized cash forecasting model incorporating cash balances, revenue, commitments and expenditures, debt servicing	Cash Management Committee, MoF	Develop and implement the required models with reliable data	PI-16(i) = C	PI-16(i) = B	IMF AFRITAC-SOUTH
		PI-17(ii) (C)	Consolidate cash balances and implement effective Treasury Single Account system	Cash Management Committee, MoF	Determine improvements and implement key changes	PI-17(ii) = B	PI-17(ii) = A	IMF AFRITAC-SOUTH
		PI-22 (D)	Enhance bank reconciliations procedures • Perform bank and suspense account reconciliations monthly and ensure they are reviewed by a senior official • Computerise bank reconciliations	Accountant-general	Complete implementation of key changes	PI-22 = C	PI-22 = B	WORLD BANK
10	Weak internal audit unit that would not adequately serve the purpose of enhancing financial management controls	PI-21 (D)	Continue to act on the planned reforms relating to internal audit unit - • Develop internal audit methodology based on International Internal Auditing standards	Director: Internal Audit	KPMG resources integrated into and directed by Director: Internal	Capacity development plan implemented.	PI-21 = B	WORLD BANK + DONORS

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					FY12	**FY13**	**FY14**	
	• No legislative requirement for the department. • Department does not apply a recognised audit methodology for its work including reporting. • Low number of professionally qualified internal auditors • Lack of legal requirement to establish audit committees		• Approve an audit charter • Develop more professional internal auditors (consider partnering with Swaziland Institute of Accountants) • Promulgate a law to require establishment and mandate of Internal Audit function • Legislate establishment and mandate of audit committees • Establish a unit in MoF to support audit committees		Audit. Capacity development plan initiated.	Legal basis and independence improved.		
11	Poor quality financial reporting impacting negatively on accountability	PI-24 (C+) and PI-25 (C+)	Enhance current financial reporting and transparency by: • Recognising direct capital loans to projects when they occur • Presenting capital budget outturns statement by sector and by vote (as in recurrent) in Annual Report • Update the 1993 Financial Management and Accounting Procedures Manual • Perform information security control audit	Accountant-general	Presenting capital budget outturns statement by sector and by vote (as in recurrent) in Annual Report. Update the 1993 Financial Management and Accounting Procedures Manual.	Posting in the official government website the in-year budget reports, year-end financial statements and external audit reports	PI-24 = B and PI-25 = B	WORLD BANK DONORS
			• Implementation of an integrated financial management information (IFMIS) system to properly integrate all existing systems and enhance the quality of information		IFMIS procurement initiated. Secure IFMIS	IFMIS project initiated and conceptual design		IMF, AFRITAC-South

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Ref.	Key risks	2009 PEFA Status	Key mitigating actions	Unit Responsible	Indicator Targets (Detail requirements to achieve PEFA score as per methodology)			TA provided by
					FY12	FY13	FY14	
					project funding.	approved. IFMIS contracts awarded and configuration underway.		
			• Addressing the differences in the Budget Estimates and Treasury Annual Reports • Posting in the official government website the in-year budget reports, year-end financial statements and external audit reports •	Account general, budget director	Ensure differences do not exist between Budget Estimates and Treasury Annual Reports.	Posting in the official government website the in-year budget reports, year-end financial statements and external audit reports		IMF AFRITAC-South
		PI-25 (C+)	Develop long term plans to adopt recognised accounting standards to prepare financial statements.	Accountant-general	Decide on the standards to apply.	Formalise a process of implementation of such standards.	PI-25 = B	WORLD BANK
		PI-25 (C+)	Revise the legislation to enhance quality of financial reporting • Legislation to require preparation and audit of financial statements for all MDAs • Reporting timelines to be improved, e.g. annual financial statements to be submitted to the Accountant–general 3 months after year end and audited annual financial statements to be submitted	MoF	New PFM Bill to be finalized and tabled in Parliament	Initiate implementation of new PFM Act	PI-25 = B	IMF AFRITAC-SOUTH WORLD BANK

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					FY12	**FY13**	**FY14**	
			to Parliament within 6 months after year-end • The responsible Minister to table an annual report in Parliament, which should include the audited annual financial statements					
12	Misappropriation due to inefficient payroll systems	PI-18 (D+)	Develop and implement the Human Resource system in all Ministries – • The system should be integrated with the Payroll system • Regular payroll audits • Increases in new payroll records and / or salary scales to be authorized by the Minister of Finance	Accountant-general Public Service Commission	Improve key controls in the payroll system Secure HR management system funding (preferably integrated with the IFMIS).	HR project initiated and conceptual design approved. HR procurement initiated.	PI-18 = B	WORLD BANK DONORS
External Scrutiny and Audit								
13	Low quality audits	PI-26 (C)	Continue to act on the planned reforms relating to the Office of the Auditor-general - • Adoption of recognised auditing standards, e.g. INTOSAI • Develop audit methodology based on the standards and equip staff on the methodology • Build capacity in the AG's office in order to perform quality audits in different areas - process could involve partnering with Swaziland Institute of Accountants and Tertiary Institutions • More timely issuing of audit reports by including in the annual report of MDAs the audit report on the financial statements	Office of the Auditor-general	Commence implementation of key changes	Complete implementation of key changes	PI-26 = B	WORLD BANK DONORS
		PI-26 (C)	Amend the Public Audit Act with the following independence enhancements (longer term) • Require AG to audit all entities that receive	Office of the Auditor-general	Revised Public Audit Bill tabled in Parliament	Implementation of key changes commence	PI-26 = B	WORLD BANK

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					FY12	**FY13**	**FY14**	
			funding from the government • Grant the AG the option not to audit parastatals, but to outsource such audits • Establishment of an AG Parliamentary Oversight Committee that would oversee Office of the AG in terms of budget and staff					DONORS
14	Ineffective Public Accounts Committees (PAC) due to • low experience of the members on functions of PAC; • inexistence of PAC Charter that define the roles and responsibilities; operating procedures etc; • limited time allocated for PAC members to fulfil their roles; • lack of resource - no budget allocated for PAC, no human resources especially technical personnel who can assist in preparation and analysis of the AG report and provision of guidance to PAC	PI-27 (C+) PI-28 (B+)	Strengthen the PAC by • Developing a charter to guide its operations • Designing and conducting training programs for PAC members – to include secondment opportunities • Resource the PAC secretariat with a budget, right skills and facilities • Extend the oversight role beyond the AG report and also enhance the quality of the PAC report	PAC	Capacity development plan approved and funded	Implementation completed	PI-27 = B PI-28 = A	WORLD BANK DONORS
Donor coordination								
15	Incomplete information on donor support to the Kingdom of Swaziland, impacting on planning, budget formulation and determination of total grant support	D-2 (NS)	Enhance donor coordination policy, process and unit • Enhance policy framework and operations for donor coordination and reporting of all donor activity • Enhance Donor Unit staffing and operations • Host regular developing partners' meetings	MoF, budget director + donors	Donors to provide information as required	D-2 = C	D-2 = B	

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					FY12	**FY13**	**FY14**	
			• Move towards use of country systems by donors in order to record, execute and monitor donor grants and loans through the Treasury system.					
Other recommendations								
16	Low number of qualified PFM professionals in the public sector that negatively impacts on effectiveness of public sector financial management systems		To design and implement a capacity building project for PFM staff, e.g. • Work with the Swaziland Institute of Accountants and tertiary institutions to address PFM training needs in their qualification systems • Introduce twinning arrangement between MOF, AG and other key PFM institutions with counterparts in the region		PFM Staff Capacity Development plan conceptualized and funded.	Implementation commenced	Implementation underway	WORLD BANK DONORS

Annex G

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