REPUBLIC OF ZAMBIA

Government of the Republic of Zambia

Public Financial Management Performance Report and Indicators

2012 ASSESSMENT AND UPDATE

Final Report

November 2013

Table of contents

CURRENCY AND EXCHANGE RATES

Currency unit = Zambian Kwacha (K)[1]

US$1 = K 5,147 (as at 28 December 2012)[2]

Government Fiscal Year (FY): Calendar year

[1] The currency was rebased by 1000 in January 2013 (KR 1 = K 1000), All local currency-denominated figures in this document are shown in the pre-based currency..

[2] Source: Bank of Zambia mid-market rate, 28 December 2012. www.boz.zm

Abbreviations and Acronyms

ABB	Activity-Based Budget
AC	Audit Committee
ACCA	Association of Chartered Certified Accountants
ACL	Audit Command Language
AFROSAI	African Organisation of Supreme Audit Institutions
AGAs	Autonomous Government Agencies
AGD	Accountant General's Department
ASYCUDA	Automated System for Customs Data
Bn	billion
BoZ	Bank of Zambia
CAAT	Computer-Assisted Auditing Techniques
CC	Call Circular
CC/FMS	Commitment Control and Financial Management System
CCS	Commitment Control System
CDF	Constituency Development Fund
CIAU	Controller of Internal Audit Unit
cif	cost-insurance-freight
CIT	Corporate Income Tax
CO	Controlling Officer
COFOG	Classification of the Functions of Government
CoIA	Controller of Internal Audit
CP	Co-operating Partner
CTC	Central Tender Committee
DFID	Department for International Development
DMFAS	Debt Management and Financial Accountability System
DRS	Debt Recording System
DSA	Debt Sustainability Analysis
EBO	Extra Budgetary Operation
EC	European Commission
EITI	Extractive Industries Transparency Initiative
EMD	Economic Management Department
ETC	Economic and Technical Co-operation of MoF
EU	European Union
FNDP	Fifth National Development Plan
FR	Financial Regulations
GDP	Gross Domestic Product
GL	General Ledger (of IFMIS)
GRZ	Government of the Republic of Zambia
IA	Internal Audit
IDM	Investment and Debt Management Department of the Ministry of Finance
IFMIS	Integrated Financial Management Information System
IIA	Institute of Internal Auditors
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards

ISPPIA	International Standards for Professional Practices in Internal Audit
IT	Information Technology
ITA	Income Tax Act
ITAS	Integrated Tax Administration System
LASF	Local Authorities Superannuation Fund
LPO	Local Purchase Order
LTO	Large Taxpayer Office
M&E	Monitoring and Evaluation
MAPS	Methodology for Assessing Procurement Systems
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MLGH	Ministry of Local Government and Housing
Mn	Million
MoE	Ministry of Education
MoF	Ministry of Finance
MP	Member of Parliament
MPSA	Ministries, Provinces and Spending Agencies
MTEF	Medium Term Expenditure Framework
MTO	Medium Taxpayer Office
NDP	National Development Plan
NGO	Non-Government Organisation
NORAD	Norwegian Agency for Development Co-operation
NRFA	National Road Fund Agency
NTR	Non-tax revenues
OAG	Office of Auditor General
PAC	Public Accounts Committee
PACRA	Patents and Companies Registration Agency
PAYE	Pay As You Earn
PE	Personal Emoluments
PEFA	Public Expenditure and Financial Accountability
PEMFA	Public Expenditure Management and Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PFMA	Public Finance Management Act
PFM-PR	Public Financial Management Performance Report
PI	Performance Indicator
PIT	Personal Income Tax
PMEC	Payroll Management and Expenditure Control
PPA	Public Procurement Act
PPP	Public-Private Partnership
PPR	Public Procurement Regulations
PS	Permanent Secretary
PSDRP	Private Sector Development Reform Programme
PSM	Public Service Management
PSPP	Public Service Pay Policy
PSRP	Public Service Reform Programme
PV	Payments Voucher
RAT	Revenue Appeals Tribunal

RDC	Recurrent Departmental Charges
RTGS	Real-Time Gross Settlements (system)
SDU	Service Delivery Unit (e.g. school, health centre)
SMTO	Small and Medium Taxpayer Office
SN	Sub National
SNDP	Sixth National Development Plan
SO	Standing Orders
ST	Secretary to the Treasury (Head of the Ministry of Finance)
TA	Technical Assistance
TC	Treasury Circular
TOR	Terms of Reference
TPIN	Taxpayer Identification Number
TSA	Treasury Single Account
TSC	Teachers' Service Commission
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme.
USAID	United States Agency for International Development
USD	US dollar
VAT	Value Added Tax
VFM	Value for Money
WB	World Bank
WCO	World Customs Organisation
ZAMMOD	Zambia Macro-economic Model
ZPPA	Zambia Public Procurement Authority
ZRA	Zambia Revenue Authority

SUMMARY ASSESSMENT

(i) Integrated Assessment of PFM Performance

Credibility of the budget (PIs 1-4)

The credibility of the budget is not strong. The ratings for PI-2 (variance of the composition of the budget), PI-4 (stock of expenditure arrears) and PI-16 (in-year predictability of resources for funding budget execution) combined with the viewpoints expressed by many government officials point towards a less than credible budget. With the partial exception of the 'protected' ministries (education, health and agriculture), MPSAs are not fully confident that they will receive the financial resources provided for in their approved budgets. Even if they do eventually receive most of them by the end of the year, their arrival is often delayed, relative to their work-plans, with adverse consequences for the services they are mandated to deliver (e.g. social welfare services, agricultural extension services).

The continuing incidence of payments arrears also indicates issues with budget credibility. Under the cash-based commitment control system, arrears to suppliers tend to be paid off eventually during the year, though this is more the case for those MPSAs on IFMIS. Nevertheless, delays in cash releases after commitments have already been entered into results in temporary arrears in the form of informal suppliers' credit, indicating that Government is unable to pay its bills on time, and resulting in the costs of providing services probably being higher than they otherwise would be. Arrears in personal emolument (PE) payments (for benefits such as leave pay) are the largest component of arrears, arising from under-budgeting (or perhaps MPSAs using the money budgeted for PEs to finance other expenditures not budgeted for). Utility bill arrears are also sizeable, arising also from under-budgeting or not paying them in order to pay other bills. Eventually, arrears of whatever kind have to be paid. Not paying them may impact adversely on service delivery.

The quarterly budgetary allocation system that continues to be in effect is symptomatic of a less than credible budget; in effect there are 4 budgets a year. With a fully credible budget, MPSAs could plan for budget execution for a full 12 months ahead, assured that they will receive the financial resources they need to purchase inputs on time. With domestic revenues being reasonably predictable (PI-3), and domestic borrowing and external grants and loans out-turns larger than budgeted for, it is not clear why a quarterly budgetary allocation system remains in effect. The main reason, it seems, is the many budgetary reallocations that take place during the year, both within MPSAs (seemingly from service delivery to administrative functions) and between MPSAs.

The quarterly allocation system implies a quarterly expenditure commitment horizon. Commitments with a longer time horizon are not allowed in principle, as they are not supported by cash, and this can be a problem for entering into contracts for capital projects with a long implementation period. The project management module in IFMIS provides for this through a notification that payables are expected at specified times during the year, but the risk is that cash may not be available to meet the payables.

Comprehensiveness and Transparency (PIs 5-10)

Performance appears reasonable in terms of the fiscal transfers system in relation to local councils and the amount of fiscal information available to the public. The main remaining challenges are (i) to improve the transparency and consistency of the budget classification system, including the elimination of mis-matches between the systems used by Budget Office and IFMIS; (ii) to improve the transparency and comprehensiveness of budget documentation; and (iii) to prepare comprehensive and consolidated reports on the fiscal risks posed by public entities (e.g. the Local Authorities Superannuation Fund), public enterprises and local councils. These risks are high.

Policy-based budgeting (PIs 11-12)

On paper, the budgetary preparation process works well, according to a calendar and Call Circular, but in practice the linkage between policy objectives and budgets is not as strong as it could be. As indicated by one of the line ministries interviewed, much effort is expended in budget consultations and preparing submissions for the Green Paper, but, in the end, the budget for next year is not substantially different from this year's. The MTEF is supposed to provide a medium-term perspective to budgeting, but in practice, the second year of the MTEF is only nominally a starting off point for preparing next year's budget. A system of forward spending estimates (baseline scenarios) indicating projections of spending under current service levels and providing a robust basis for re-prioritising and allocating fiscal space to priorities is not yet in place.

The budget classification system is supposed to support policy-oriented budgeting, but in practice only does this to a limited extent. Programme, activity and line item codes are numerous and accompanied by little explanatory narrative. A performance monitoring system –usually a fundamental component of a programme budgeting framework – is not in place. Some activities are in fact economic classification items (e.g. paying utility bills), rather than the production of outputs that contribute to programme objectives. The Activity-Based Budget, presented in the Yellow Book, is focussed on detailed programmes and activities for MPSAs, but it does not show the costs of inputs for these activities, even at a broad level; capital expenditure, for example is not defined, although some activities clearly represent capital expenditure (e.g. road construction). Adding to the non-transparency of the system is a disconnect between some of the budget classification codes as they appear in the Yellow Book and the IFMIS codes. Such dis-connects are even causing problems in budget execution, as indicated to the assessment team by the Ministry of Agriculture.

Predictability and control in budget execution

Revenue administration (PIs 13-15)

Revenue administration has strengthened through taxpayer education efforts, the introduction of a unified taxpayers' identification number (TPIN), and the expansion of the tax audit function. The ZRA appears to be a professional and competent organisation. Nevertheless, collection of tax debts continues to be an issue.

Budget execution and cash/debt management (PIs 16-17)

MPSAs prepare cash flow forecasts ('profiles') at the beginning of the year, which are supposed to set the base for the setting of quarterly budget allocation ceilings. In practice, the profiles inform the setting of ceilings only to a limited degree. One reason appears to be that MPSAs try to 'front-load' their profiles so as to obtain as much as possible a degree of certainty of funding during the year (itself indicating doubt about the credibility of the budget). The quarterly allocations set by MoF tend, therefore, to deviate somewhat from the profiles. Another reason is that the preparation of procurement plans, a necessary input to meaningful cash flow forecasts, is still in its early stages. The Ministry of Works and Supplies (MWS) indicated it didn't see much point in preparing profiles, which tended to be revised by

MoF without any prior discussion with it (the 2008 PEFA assessment also raised the issue of lack of discussion between MoF and line ministries).

Cash management has strengthened through the centralised system of wage and salary payments that has been adopted. Instead of funds being tied up in ministerial bank accounts for payments of salaries, these are now being paid directly into the bank accounts of staff. A full Treasury Single Account (TSA) system is currently being developed but has not yet been adopted. Debt management appears reasonable, but a medium-term debt management strategy has not yet been prepared.

Internal control systems (PIs 18-21)

The payroll control system appears to be operating reasonably well. A major improvement has been the decentralisation of PMEC, which has significantly shortened the time between changes to personnel records/personnel data base and changes to the payroll. The payroll audit function has strengthened and the chances of 'ghost' workers appear to have fallen as a result.

The procurement system is supposed to provide for value for money, but this may not be the case. Records of procurements in terms of numbers, values and types are not collated systematically and the Zambia Public Procurement Authority (ZPPA) appears not to have firm assurance that competitive tendering procedures are always followed for proposed procurements above the threshold. ZPPA conducts inspections and assessments, but outside parties contacted by the assessment team indicated that these tended to lack rigour.

Expenditure commitment controls (PI-20, dimension (i)) have strengthened through the advent of IFMIS, which blocks any proposed commitment not supported by the approved budget and the quarterly allocation ceilings. The IFMIS is still in its early stages of implementation; roll-out started in 2011 and many MPSAs were not hooked up until the beginning of 2012; with the exception of Eastern and North-western Provinces, roll out to Provincial Administrations has yet to start. The IFMIS is experiencing technical problems, however, and staff are having difficulty in using it. Line ministries expressed the need for more training, and covering more people (as the budget execution process go through a number of approval stages). They also raised the need to have technical expertise physically on-site to provide help to staff having problems.

The understanding by staff of other internal control systems (PI-20, dimension (ii)) is reasonable, on the basis of the PFM legislation, Financial Regulations, Conditions of Service, and various Circulars (issued by Cabinet and MoF for example). New staff appear, however, not to go through an induction period, as used to be the case until the mid-1990s, and so they only develop their understanding on the job. A robust system for collating and filing Circulars appears not to be in place.

The annual reports of the Auditor General indicate several areas where internal control systems are not being sufficiently complied with, e.g. revenue collection by line ministries; delays in bank reconciliations and errors in these; imprests not being retired on time and being carried forward to the next year; budget execution procedures – including procurement procedures – not being followed properly; and errors in recording. The extent of 'excess' spending, for example, (spending not covered by the Appropriations Act and thus illegal) is evidenced by the supplementary Appropriations Bills approved subsequent to the OAG's report to regularise the excess spending. Non-compliance is also reflected in the high number of 'Disclaimer of Opinions' issued by OAG in connection with its review of MPSA financial statements. Non-compliance implies the risk of leakage of funds, wasteful spending and perhaps also fraud. The quality of service delivery may suffer in terms of less funding being provided and/or higher costs of inputs.

The internal audit system monitors the integrity of the internal control systems. The quality of internal audit reports is high, as evidenced by the audit reports reviewed by the team (one very well-prepared report looked at revenue collection systems in an MPSA that were not working well, leading to leakage of revenue). The main issue is MPSAs not sufficiently implementing the recommendations of the internal audit reports. If MPSAs ignore the recommendations of audit reports, the usefulness of the internal audit function is undermined.

Accounting, recording and reporting systems (PIs 22-25)

Aided by IFMIS and FMS, the accounting and reporting systems appear to work reasonably well, though, as noted above, issues arise in the form of bank reconciliation errors and delays in clearing imprest accounts. The Government adopted IPSAS cash accounting standards in 2009, with the 2008 comparative figures for statements A, B and D being re-stated, but full compliance has not yet been reached. Revenue performance reports have yet to be integrated into IFMIS, and budget performance reports may not represent the true situation as far as revenue performance is concerned.

Public services are delivered by front-line service delivery units (SDUs), such as primary schools and health clinics, and so it is essential that they actually receive the inputs that have been provided for in the approved budget. Most basic services are provided at provincial and district level. The authorities at these levels appear to monitor carefully the flow of resources to SDUs. The allocation criteria per SDU are clear (e.g. primary school enrolments and population of health catchment area) and funds are transferred into SDU bank accounts, the expenditures from which have to be reported to the relevant officers in the provincial and district administrations, and the reconciliations of which are reviewed. The Office of Auditor General audits the flow of funds to SDUs and the accountability process, thus adding another check.

External scrutiny and audit functions (PIs 26-28)

The Office of Auditor General (OAG) appears to be performing well. It has clearly benefited from a long period of institutional strengthening support provided by NORAD. It has started to conduct performance audits. The Public Accounts Committee (PAC) considers that OAG is doing a good job. The audit process includes trying to have as many audit issues resolved as possible prior to the annual report of OAG being submitted to Parliament. The annual audit report prepared by OAG is of high quality, and identifies well the areas where MPSAs are not sufficiently complying with regulations and procedures.

As with internal audit, the main issue is the extent of response by MPSAs to OAG's findings and, subsequently, to the recommendations of the PAC. Issues raised in the OAG and PAC reports tend to come up again in future reports, implying a lack of implementation.

The Clerk to the Parliament and the representatives of the Estimates Committee and PAC met by the team consider they do a good job of scrutinising the draft budgets and audit reports. They consider that the effectiveness of scrutiny could be strengthened through earlier involvement in the budget preparation process, through the granting of formal powers to debate and approve the Green Paper, which is the output of the strategic phase of budget preparation and which is policy oriented. A Planning and Budgeting Bill has been drafted that provides for greater powers of scrutiny. The PAC considers that a Parliamentary Budget Office should be established, as has been done in some other African countries, in order to provide technical advice and expertise to members of the two committees.

The MPs met by the assessment team consider that the adjustment to the budget preparation calendar represents a significant improvement, both because execution of the approved budget can start on January 1 instead of a few months later and the amount of time allocated to debate the budget is now formally established. A major concern is the submission of Supplementary Appropriations Bills to Parliament that should be debated and approved prior to the supplementary spending taking place, rather than after the fact. This could reflect underlying weaknesses in the planning framework, either in aggregate (macro-fiscal and MTEF projections) or at the detailed MPSA level, or challenges in maintaining spending discipline through expenditure controls.

Donor practices are reasonably transparent relative to many other countries. Planned and actual project and programme expenditures are reflected in budget documents, though some major donor projects and programmes are not included. Use of country systems still has some way to go. The more that country budgeting systems are used, the greater the transparency and comprehensiveness of the budget, and the easier it is to plan and budget for the delivery of services.

(ii) Assessment of the impact of PFM weaknesses

The impact of PFM weaknesses falls on the allocation of resources and on operational efficiencies. The current budget preparation process and the way the budget classification system is configured do not assure the optimum strategic allocation of resources. The deficiencies in internal control systems raise the possibility of wastage and leakage of funds, thereby detracting from maximum operational efficiency in the usage of resources.

(iii) Prospects for reform planning and implementation

As summarised in Section 4, many reforms have been implemented over the last few years and are still in the process of being implemented. The GRZ recognises that the reform process is not yet complete. The draft PFM reform strategy accordingly lays out the framework for the continuing of PFM reform. The main challenges are: (i) ensure high-level political co-ordination of reforms, operational co-ordination in itself not being sufficient, as evidenced in the process of PFM reform to-date; (ii) designing and implementing a change management strategy in order to facilitate the business process and institutional changes that will be part and parcel of the continuing roll-out of IFMIS, particularly in the decentralised environment that is currently in the planning stage; and (iii) addressing continuing capacity constraints.

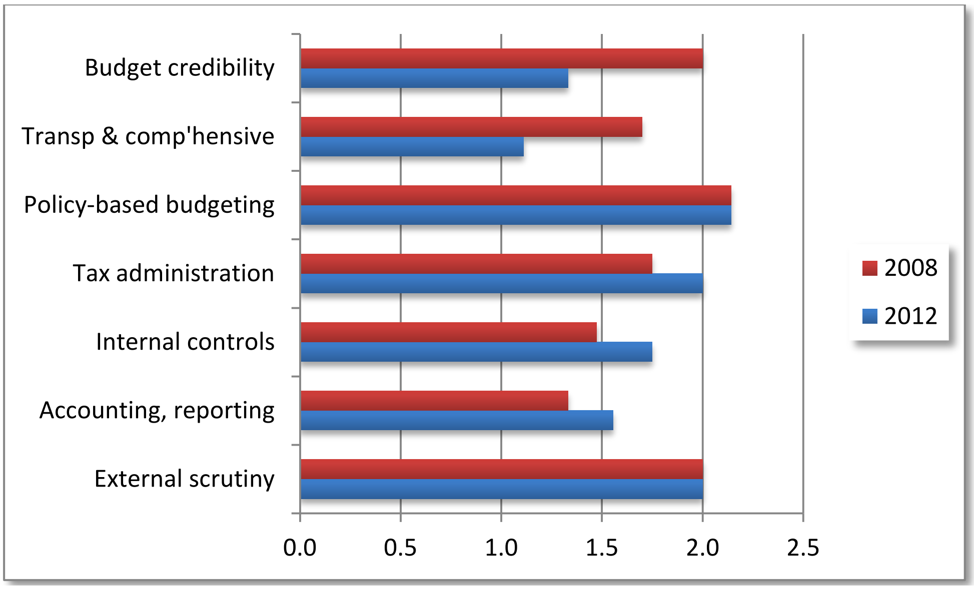
Summary of Performance Indicator Ratings, 2008 and 2012 PEFA Assessments

Figure 1 depicts a comparison of the average PEFA rankings between the 2008 and the 2012 assessments by PFM area.[3] As shown, the overall picture is mixed, with improvements in

[3] The average score for each assessment was calculated using the methodology set out in di Renzio, P. (2009). *Taking Stock: What do PEFA assessments tell us about PFM systems across countries?* London: Overseas Development Institute. (ODI Working Paper 302).. The scores for each dimension within an indicator were allocated points as follows: 4 points for each A score; 3.5 points for each B+ score; 3 points for each B score; 2.5 points for each C+ score; 2

financial reporting, tax administration and internal audit, but significant slippages in budget credibility and in the accessibility to fiscal information. It is to be noted that, although progress has been made in a number of areas, some improvements were of insufficient magnitude to register an increase in the rating.

Figure 1: Aggregate comparisons of PEFA rankings by PFM area



A detailed comparison of the ratings between the 2008 and 2012 assessments, and the reasons for any performance changes, is set out in the following table. Full comparisons for three of the indicators (PI-2, PI-3, and PI-19) were not possible due to revisions in the guidelines for assessing these indicators.

Comparative Summary of 2008 and 2012 PEFA Indicators

	Performance Indicator	Rating 2008 PEFA	Rating 2012 PEFA	Performance changes
	A: BUDGET CREDIBILITY			
PI-1/M1	Aggregate expenditure out-turn compared to original approved budget	**B**	**D**	**Reduction in performance due to lower predictability** (actual versus budget)
PI-2/ M1	Composition of expenditure out-turn compared to original approved budget	**D**	**D+** (i) D (ii) A	**Ratings not directly comparable due to revision of indicator**. High variance, broadly unchanged

points for each C score; 1.5 points for each D+ score; and 1 point for each D score; a 0 score was given to any dimension that was not rated or not applicable.

	Performance Indicator	Rating 2008 PEFA	Rating 2012 PEFA	Performance changes
PI-3/ M1	Aggregate revenue out-turn compared to original approved budget	**A**	**C**	**Ratings not directly comparable due to revision of indicator**. However, there was an increase in actual relative to planned revenue collections within the last three years.
PI-4/ M1	Stock and monitoring of expenditure payment arrears	**B+** (i) B (ii) A	**C+** (i) C (ii) A	**Performance appears to have diminished,** with end-year stock of payment arrears increasing sharply, to 4.3 percent of primary expenditure in 2011 from 1.8 percent in 2009.
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5/ M1	Classification of the budget	**A**	**B**	**Small reduction in performance** due to changes in programme classification which make it less clear and less consistent over time.
PI-6/ M1	Comprehensiveness of information included in budget documentation	**B**	**C**	**Four out of the nine benchmarks were met, compared to 5 in 2008**. The reason for the change in ratings may be the preparation of the budget earlier in the year, at which time revised expenditure estimates may not be available.
PI-7/ M1	Extent of unreported government operations	**B+** (i) A (ii) B	**NR** (i) NR (ii) D	**Reduction of performance** in terms of reflection of CP amounts in fiscal reporting. It was not possible to estimate the extent of extra-budgetary operations.
PI-8/ M2	Transparency of Inter-Governmental Fiscal Relations	**D+** (i) B (ii) D (iii) D	**C** (i) B (ii) C (iii) D	**Improvement in performance due to change in budget calendar**. With central govt. budget approved before the end of the year, Councils have more certain information on their likely CG grants on which to base their budget preparation.
PI-9/ M1	Oversight of aggregate fiscal risk from other public sector entities	**C** (i) C (ii) C	**C** (i) C (ii) C	**No change in performance.** No consolidated report on fiscal risk
PI-10/ M1	Public access to key fiscal information	**A**	**B**	**Performance has diminished**, with timeliness in publishing reports having slipped somewhat, partly due to MoF not keeping its website up to date.
	C. BUDGET CYCLE			
	C(i) Policy-Based Budgeting			
PI-11/ M2	Orderliness and participation in the annual budget process	**C+** (i) C (ii) A (iii) D	**B+** (i) C (ii) A (iii) A	**Performance has improved**, mainly due to the improved budget calendar

	Performance Indicator	Rating 2008 PEFA	Rating 2012 PEFA	Performance changes
PI-12/ M2	Multi-year perspective in fiscal planning, expenditure policy and budgeting	**B** (i) C (ii) B (iii) A (iv) B	**B** (i) C (ii) B (iii) A (iv) B	**Performance unchanged.**
	C(ii) Predictability & Control in Budget Execution			
	Revenue Administration			
PI-13/ M2	Transparency of taxpayer obligations and liabilities	**B** (i) B (ii) B (iii) B	**B** (i) B (ii) B▲ (iii) B	**Progress is being made,** though not by enough as yet to increase the ratings**.**
PI-14/ M2	Effectiveness of measures for taxpayer registration and tax assessment	**B** (i) C (ii) B (iii) B	**B** (i) C (ii) B (iii) A	**Performance has improved** due to progress under dimension (iii) – greater tax audit coverage
PI-15/ M1	Effectiveness in collection of tax payments	**C+** (i) C (ii) B (iii) B	**NR** (i) NR (ii) B (iii) B	**Performance is unchanged.** Still insufficient information on tax debt collection. The speed of tax collection has increased.
	Budget Execution & Cash/Debt Management			
PI-16/ M1	Predictability in the availability of funds for commitment of expenditures	**D+** (i) B (ii) D (iii) C	**C+** (i) B (ii) C (iii) C	**Improvement in performance** due to greater reliability of information on resources available for spending under (ii). But predictability still a major issue
PI-17/ M2	Recording and management of cash balances, debt and guarantees	**C+** (i) C (ii) C (iii) B	**C+** (i) C (ii) C (iii) B	**Progress is being made, though not by enough to increase the ratings**. Cash management has improved, translating into an increase in the amounts consolidated.
	Internal Controls			
PI-18/ M1	Effectiveness of payroll controls	**D+** (i) A (ii) D (iii) A (iv) B	**C+** (i) A (ii) C (iii) A (iv) A	**Performance has improved due to:** 1) reduction in the time for changes in personnel records to be reflected in the payroll (attributed to decentralisation of PMEC to line ministries and provincial administrations); and 2) increased frequency and scope of payroll audits.
PI-19/ M2	Competition, value for money and controls in procurement	**NA** (i) NA (ii) NA (iii) NA (iv) NA	**D+** (i) B (ii) D (iii) D (iv) D	**Ratings not directly comparable due to revision of indicator.**
PI-20/ M1	Effectiveness of internal controls for non-salary expenditures	**C+** (i) C (ii) B (iii) C	**C+** (i) C (ii) B (iii) C	**No change in performance**. As indicated by OAG reports, compliance with internal controls is deficient in a number of areas

	Performance Indicator	Rating 2008 PEFA	Rating 2012 PEFA	Performance changes
PI-21/ M1	Effectiveness of internal audit	**C+** (i) B (ii) B (iii) C	**C+** (i) B (ii) B (iii) C	**Performance is unchanged**. The coverage of internal audit has improved, but its effectiveness continues to be constrained by limited follow-up by the Permanent Secretaries who are designated as Controlling Officers of the MPSAs.
	C(iii) Accounting, Recording and Reporting			
PI-22/ M2	Timeliness and regularity of accounts reconciliation	**B** (i) A (ii) C	**B** (i) A (ii) C	**No change in performance.**
PI-23	Availability of information on resources received by service delivery units	**B**	**B**	**No change in performance**
PI-24/ M1	Quality and timeliness of in-year budget reports	**C** (i) C (ii) C (iii) C	**C** (i) C (ii) C (iii) C	**No change in performance**.
PI-25/ M1	Quality and timeliness of annual financial statements	**C+** (i) C (ii) B (iii) C	**C+** (i) C (ii) B (iii) B	**Performance has improved**, mainly through the implementation of IPSAS (cash) standards. The preparation of a summarised Financial Report improves the transparency of the information it contains.
	C (iv) External Scrutiny and Audit			
PI-26/ M1	Scope, nature and follow-up of external audit	**B** (i) B (ii) B (iii) B	**B** (i) B (ii) B (iii) B	**No change in performance,** but nevertheless the quality of the external audit function is strengthening over time (e.g. more VFM audits).
PI-27/ M1	Legislative scrutiny of the annual budget law	**C+** (i) B (ii) B (iii) A (iv) C	**C+** (i) B (ii) B (iii) A (iv) C	**No overall change in performance,** the use of supplementary estimates being a limiting factor, but the revised timetable for approving the budget represents an improvement under dimension (iii).
PI-28/ M1	Legislative scrutiny of external audit reports	**C+** (i) C (ii) A (iii) B	**C+** (i) C (ii) A (iii) B	**No change in performance, but generally this function performs relatively well,** the main limitation being the time lag between review by PAC and adoption of PAC reports by the whole House**.**
	D. DONOR PRACTICES			
D-1/ M1	Predictability of Direct Budget Support	**D+** (i) C (ii) D	**D+** (i) B (ii) D	**Performance has improved**, particularly in terms of predictability of the provision of direct budget support.
D-2/ M1	Financial information provided by donors for budgeting and reporting on project and program aid	**D+** (i) B (ii) D	**D+** (i) B (ii) D	**No change in performance.**

	Performance Indicator	Rating 2008 PEFA	Rating 2012 PEFA	Performance changes
D-3/ M1	Proportion of aid that is managed by use of national procedures	**C**	**C**	**No change in rating.** Use of country systems has fallen somewhat in the past three years.

1. Introduction

1.1. Objective

The purpose of the assessment is to assess the PFM system performance of the Government of the Republic of Zambia (GRZ), using the PEFA assessment methodology, and to gauge progress in strengthening performance since the last PEFA assessment conducted in 2008. The results of the assessment will principally be used by the Government to inform the new PFM reform strategy and by the donors to inform their development assistance strategies. In particular, DFID and other development partners may use the results of the assessment as input into decisions to be made about the timing and magnitude of their assistance to GRZ.

1.2. Process of preparing the report

Under contract to Capita Consulting Company, itself under contract to the UK Department of International Development (DFID) a team of three external consultants worked closely with a team of four staff selected by GRZ (from MoF, Zambia Revenue Authority (ZRA) and Zambia Public Procurement Authority (ZPPA) conducted the PEFA assessment during 12 June to 13 July. Apart from meetings with the key departments in MoF, the team also held meetings with Ministry of Local Government and Housing (MLGH), Zambia Revenue Authority (ZRA), the Revenue Appeals Tribunal (RAT), ZPPA, the Ministries of Education, Health, Agriculture, and Works and Supplies, Public Service Management Division, the Auditor General, Bank of Zambia, the Parliament (Clerk, Budget Committee, Public Accounts Committee), as well as with two Provincial Administrations (Southern Province and Lusaka Province) and four districts within these Administrations. The PEFA team also held meetings with a number of non-governmental, including civil society, organisations, as well as with a variety of co-operating partners (including the Co-operating Partners' PFM group[4]), for purposes of triangulation.[5] The team conducted a PEFA training workshop on 19th June. The team leader left on 12th July.

Following the original PEFA field work, a revised team, comprising most of the GRZ members of the original team, the original local consultant, and a separate DFID-contracted external consultant, reconvened in May 2013 in order to update the data and other information in the report, incorporate comments received to date, and finalise the report[6]. Debriefings of the results were provided to the Secretary to the Treasury, MoF Permanent Secretaries, and the Accountant-General. A high-level stakeholder workshop, chaired by the Permanent Secretary (Economic Management and Finance) of the MoF, was conducted on 23 May 2013 to discuss the final assessment. The indicators whose underlying data were updated include: PI-1, PI-2, PI-3, PI-4, PI-15, PI-25, and D-1.

The teams greatly appreciate the excellent cooperation they received.

[4] The specific role of the Co-operating Partners' PFM Group alongside Government is to co-ordinate both financial and technical support for the PFM reforms being undertaken as well as provide an avenue for engagement on these reforms.

[5] Requested meetings with other non-state actors, such as private sector organisations (e.g. business associations), were unable to be arranged, despite numerous attempts.

[6] During the finalisation of the PEFA assessment in mid-2013, the opportunity was taken to update the underlying data behind a number of performance indicators, based on the availability of the final 2011 annual financial report and audited accounts, and to revise the ratings accordingly; however, the objective of the finalisation was not to redo the entire assessment.

1.3 Methodology for the preparation of the report

The PEFA Assessment was a conducted by a joint team comprising Government staff and external facilitators.[7] Before the start of the PEFA assessment, the team first conducted a PEFA training workshop on 19th June 2012. The purpose of the workshop was to enable key stakeholders appreciate the process as well as their role. The team carried out a desk study to review the documentation provided including the 2008 PFM-PR. Thereafter the team held interviews with all key stakeholders indicated in section 1.2 above and to collect additional documentary information/evidence for analysis. The first draft report was prepared and shared with the Government counterpart team and Co-operating Partners' PFM Group on 16th July 2012 for their initial comments which were received and incorporated for the first draft. The draft report was then shared with other key stakeholders for comments, which were received in April 2013 and were incorporated in the final draft. Due to the time lapse, the Government and the Co-operating Partners agreed to have the report updated before presentation to all of the key Stakeholders. There have been some adjustments made to the rating as a result of the inclusion of updated information, particularly with regard to the 2011 Financial Report, and new evidence that was provided.

The final draft report was presented to all key stakeholders at the high-level workshop on 23rd May 2013 before being revised to take account of comments by participants and verification of final evidence, and subsequently submitted to the PEFA Secretariat for the final review. As the ToRs and main fieldwork were undertaken before the PEFA Check requirements came into effect, they did not form part of the assessment.

1.4 Scope of the Assessment

This PEFA assessment is focused on the MPSAs of GRZ. The assessment is mainly backward looking, assessing PFM performance to date. Depending on the context, the assessment under an indicator may be concerned with the current status of PFM (e.g. revenue administration, PIs 13-14) or performance over the last completed fiscal year (e.g. PI-16, concerning the in-year predictability of the budget), or performance over the last three completed fiscal years (e.g. PIs 1-3, concerning expenditure and revenue performance relative to the approved budget).

[7] The team comprised: Clare Mazimba (MoF), Percy Musona (MoF Budget Office), David Kongwa (MoF Accountant-General's office), Maimbo Nyanga, (ZRA), Kelvin Mpembamoto (ZRA), Shadrick Shawa (ZPPA), Wamupu Akapelwa (MoF), Mumba Chanda (local consultant), Peter Fairman (external consultant - field work and initial drafting), Ian Collins (external consultant - field work and initial drafting), and Mary Betley (external consultant - final mission and finalisation)

2. Zambia Background Information

2.1. Country Economic Situation

Country Context

Zambia has a population of approximately 13,883,600[8] and a Gross National Income per capita of US$ 1,358.[9] The percentage of the population living below the poverty line is 68.5% (US$ 1.25 per day).[10]

In the period 2010-12, macroeconomic performance was favourable, with real GDP growth of 7.3 percent recorded in 2012 compared to 6.8 percent in 2011. Agriculture, transport and communication and energy have been principal drivers of this growth. Developments in the world economy are likely to have contributed to the slowdown in growth in the mining, manufacturing and tourism sectors.

Inflation has been relatively stable, in single digit levels, with a 2012 year-end rate of 7.1%[11] while Gross International Reserves reached 3.5 months of imports in 2012. The budget outturn was mixed, with revenues surpassing the set targets while total expenditures experienced substantial deviations. The public debt/GDP ratio is relatively low, at 22%. Selected socio- and macro-economic data are summarised in Table 1.

[8] Zambia Human Development Indicators, UNDP, 2013
[9] In purchasing power parity terms. Ibid
[10] Ibid
[11] MoF

Table 1: Zambia: Selected Economic Indicators

	2008	2009	2010	2011
Population				
Total population, millions	12,525,791	12,896,830	13,092,666	13,459,261
Annual population growth, %	2.9	2.9	2.8	2.8
National income and prices				
GDP current prices (billion K.)	54,839.44	64,615.58	77,666.59	93,354.16
GDP, annual real growth, %	5.7	6.4	7.6	6.8
CPI (annual average), %	12.4	13.4	8.5	8.7
GDP per capita, K current prices	4,378,121.86	5,010,190.71	5,932,068.40	6,936,054.15
GDP per capita, K constant prices	300,699.57	310,750.78	329,421.07	341,489.78
GDP per capita, U.S. dollars current prices	1,171.30	992.88	1,236.72	1,418.21
External sector (US$, billions)				
Current account balance	1,038.80	538.00	1,143.60	236.10
Capital account balance	230.00	237.30	149.70	151.00
Financial account balance	816.10	(167.10)	1,076.40	429.90
Overall balance of payments	12.70	540.10	83.30	243.80
Gross official reserves (end of period)	976.00	1,758.40	1,896.50	2,166.70
Gross official reserves (in months of imports)	2.10	5.10	4.00	3.40
Current account balance (excl. official transfers) as % of GDP	(5.50)	4.20	7.10	1.20
Debt				
Stock of domestic debt, net (end of period), % of GDP	15.5	12.10	12.90	12.10
Total public debt, net of deposits, % of GDP	26.7	22.00	22.10	22.30

Sources: MoF, IMF and UNDP

Overall Government reform program

Government has in place the Sixth National Development Plan (SNDP), covering the period 2011 – 2015, as a follow-up to the Fifth National Development Plan (FNDP), which ended in 2010. The focus of the SNDP is "sustained economic growth and poverty reduction". In order to raise and broaden economic growth and employment beyond that achieved in the FNDP period, the growth and investment strategy will be accompanied by continued implementation of reforms. The key ones will be Public Service Reform Programme (PSRP), Public Financial Management (PFM), Private Sector Development Reform Programme (PSDRP) and a range of sector specific measures that aim at increasing economic growth through investment expansion and fostering competitiveness and productivity and thereby addressing growth constraints.

Rationale for PFM Reforms

The Government does recognises the need to continue with PFM reforms in order to achieve its medium and long term objective of the SNDP and the Vision 2030. It is the view of the Government that the continued implementation of the PFM reforms should lead to the attainment of economic development, poverty reduction and improved public service delivery. The Government has since developed a three-year (2013 – 2015) PFM Reform Strategy focussing on improving the efficiency, effectiveness, accountable and transparency use of public resources.

2.2 Description of Budgetary Outcomes

Tables 2a and 2b indicate a sustainable fiscal situation, with domestic revenues increasing in terms of GDP, enabling increasing expenditure in terms of GDP and a stable and low public debt to GDP ratio.[12]

Between 2009 and 2011, total revenues and grants were broadly within the target and averaged 20.5 percent of GDP. This was mainly on account of higher than projected receipts of tax revenues particularly from the mining sector. The higher receipts from the mining sector arose from the rebound in economic activities following the recovery from the global financial crisis and the implementation of the 2008 mining tax regime. domestic revenues as a share of GDP increased from 15.7 percent of GDP in 2009 to 20.9 percent of GDP in 2011. This outturn was attributed to the general increase in economic activities, especially in the mining sector following the gradual recovery of the sector from the effects of the global economic crisis. Further, tax policy and administration measures were undertaken to enhance domestic revenue mobilisation. Some of these measures included the introduction of the new fiscal and regulatory framework for the mining sector and improved enforcement activities in tax administration.

Total expenditure increased from 21.1 percent to 24.0 percent of GDP in the same period. Expenses (current expenditure) increased by 1.7 percentage points while domestically financed capital expenditure increased by 1.4 percentage points. Within the increase in the share of expenditures in GDP, assets rose by 0.8 percentage points of GDP despite the decline in receipts of grants from cooperating partners. Spending on domestically financed assets increased by 1.7 percentage points of GDP, reflecting government’s commitment to increase infrastructure development.

[12] As provisional data for 2012 were not available when the update was prepared in May 2013, this section provides data for the 2009-2011 period.

Table 2a: Central government budget (bn K)

	2008	2009	2010	2011
A.TOTAL REVENUE	**12,290**	**13,174**	**15,198**	**20,121**
1.Domestic Revenue	10,221	10,226	12,700	19,407
2.Grants	2,069	2,948	1,389	714
B.EXPENDITURE	**13,098**	**14,841**	**17,584**	**22,385**
1.Recurrent	*11,132*	*12,112*	*15,073*	*18,003*
Non-interest expenditure	*10,182*	*11,095*	*13,703*	*16,921*
Interest payments	*950*	*1,017*	*1,370*	*1,082*
2.Development	***1,966***	***2,729***	***2,512***	***4,382***
C.BALANCE EXCL. GRANTS	(3,304)	(4,615)	(3,762)	-2,978
D.BALANCE INCL.GRANTS	**(1,236)**	**(1,667)**	**(2,373)**	**-2,264**
E. STATISTICAL DISCREPANCY	(427)	-	13	-
F.FINANCING	**1,236**	**1,667**	**2,373**	**2,264**
Foreign	257	224	168	1,134
Domestic	979	1,443	2,205	1,130
Primary budget balance ** (billions K)	***(285)***	***(650)***	***(1,003)***	***-1,182***
GDP, market prices (billions K)	***55,079***	***64,616***	***77,667***	***93,354***

**Including grants, excluding interest payments (commitment basis)
Source: MoF

Table 2b: Central government budget (in percent of GDP)

	2008	2009	2010	2011
A.TOTAL REVENUE	**22.3%**	**20.4%**	**19.6%**	**21.6%**
1.Domestic Revenue	18.6%	15.8%	16.4%	20.8%
2.Grants	3.8%	4.6%	1.8%	0.8%
B.EXPENDITURE	**23.8%**	**23.0%**	**22.6%**	**24.0%**
1.Recurrent	*20.2%*	*18.7%*	*19.4%*	*19.3%*
Non-interest expenditure	18.5%	17.2%	17.6%	18.1%
Interest Payments	1.7%	1.6%	1.8%	1.2%
2.Development	*3.6%*	*4.2%*	*3.2%*	*4.7%*
C.BALANCE EXCL. GRANTS	**-6.0%**	**-7.1%**	**-4.8%**	**-3.2%**
D.BALANCE INCL.GRANTS	**-2.2%**	**-2.6%**	**-3.1%**	**-2.4%**
E. STATISTICAL DISCREPANCY	**-0.8%**	**0.0%**	**0.0%**	**0.0%**
F.FINANCING	**2.2%**	**2.6%**	**3.1%**	**2.4%**
Foreign	0.5%	0.3%	0.2%	1.2%
Domestic	1.8%	2.2%	2.8%	1.2%
Primary budget balance ** (billions K)	***-0.5%***	***-1.0%***	***-1.3%***	***-1.3%***

**Including grants, excluding interest payments (commitment basis)
Source: MoF

Functional classification of the budget

The most obvious trends in the functional classification of the budget (Table 3) are significant increases in budgetary allocations for economic affairs, which includes provisions for infrastructure, and, to a lesser extent, education.

Table 3: Actual budgetary allocations by COFOG function (as % of total expenditures)

	2008	2009	2010	2011
Function	**(%)**	**(%)**	**(%)**	**(%)**
General Public Services	32.8%	31.8%	32.0%	28.5%
Defence	7.1%	7.0%	7.9%	7.2%
Public Order and Safety	4.2%	4.0%	4.6%	4.5%
Economic Affairs	16.7%	19.8%	19.3%	25.6%
Environmental Protection	0.7%	0.8%	0.9%	0.6%
Housing and Community Amenities	6.0%	3.8%	5.4%	3.1%
Health	11.5%	11.9%	8.3%	8.6%
Recreation, Culture and Religion	1.3%	1.2%	0.6%	0.5%
Education	15.4%	17.2%	18.4%	18.6%
Social Protection	4.2%	2.4%	2.7%	2.7%
TOTAL	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: 2009-11 Yellow Books, MoF

Economic classification of the budget

In terms of the economic classification of the budget, the share of capital expenditure has increased, as indicated in Table 4, through the increasing proportion of expenditure on economic services.

Table 4: Actual budgetary allocations by economic classification

	2009			2010			2011		
	K bn	% of GDP	% of total	K bn	% of GDP	% of total	K bn	% of GDP	% of total
Total Expenditure	**13,847.5**	**21.5**	**100.0**	**17,563.9**	**22.6**	**100.0**	**22,385.3**	**23.8**	**100.0**
Current expenditure	***11,556.9***	***17.5***	***83.5***	***15,099.5***	***19.2***	***86.0***	***18,364.4***	***19.2***	***82.0***
Wages & salaries	5,251.0	8.2	37.9	6,238.1	8.0	35.5	7,391.7	7.9	33.0
Use of goods & services	2,656.9	4.1	19.2	3,039.6	3.9	17.3	4,099.9	4.4	18.3
Interest on public debt	1,032.6	1.6	7.5	1,521.2	2.0	8.7	1,082.5	1.2	4.8
Domestic debt	*974.6*	*1.5*	*7.0*	*1,280.3*	*1.6*	*7.3*	*1,013.4*	*1.1*	*4.5*
Foreign debt	*58.0*	*0.1*	*0.4*	*240.9*	*0.3*	*1.4*	*69.1*	*0.1*	*0.3*
Grants & other payments	1,729.7	2.7	12.5	1,807.1	2.3	10.3	2,569.5	2.7	11.5
Social benefits	253.5	0.4	1.8	159.6	0.2	0.9	961.6	1.0	4.3
Other expenses	332.5	0.5	2.4	2,130.3	2.7	12.1	1,887.8	2.0	8.4
Liabilities	277.5	0.4	2.0	198.6	0.3	1.1	361.4	0.4	1.6
Capital expenditure	***2,290.6***	***3.6***	***16.5***	***2,463.4***	***3.2***	***14.0***	***4,020.9***	***4.3***	***18.0***
Domestically financed	1,842.3	2.9	13.3	2,161.4	2.8	12.3	3,961.8	4.2	17.7
Externally financed	448.3	0.7	3.2	302.0	0.4	1.7	59.1	0.1	0.3

Source: Bank of Zambia 2012 annual report (citing MoF)

2.3. Legal and Institutional Framework

Legal framework for PFM

A major reform of PFM has been brought about by the Constitution of Zambia (Amendment) Act, 2009 which brought forward the timing of the budget cycle and envisages further legislative changes in the form of budgeting and planning legislation to strengthen the linkages between annual budgets and medium and long term development plans. The amendment provides for the budget for the following financial year to be laid before the National Assembly no later than the second Friday of October. The National Assembly should approve the budget no later than 31st December. Further, the Zambian Constitution is being reviewed and the final draft is being finalised after public discussion. The other legislative change was the repeal of the Zambia National Tender Board Act and its replacement by the Public Procurement Act, 2008, along with the transformation of the Zambia National Tender Board into the Zambia Public Procurement Authority (ZPPA). Following the end of a transition period on 31st December, 2012 (extended from 31st December, 2010), the ZPPA is no longer operationally involved in any public procurement. Its main roles will be the regulatory oversight of Procurement Entities and the provision of advisory services.

PFM-related laws and regulations

Existing legislation relevant to PFM, much of which was updated in minor ways in 2009 without significantly changing earlier laws, is referred to in the previous PEFA:

- *The Public Finance Act 2004, and the Financial Regulations, 2006* prescribe the management and control of public finances, control of statutory corporations as well as the audit of all public accounts including statutory corporations.
- *The Public Procurement Act, 2008 and Regulation, 2011* prescribes the powers, functions, and composition of the Authority and all procuring entities; the methods of procurement, general procurement rules and process, rules governing eligibility of bidders and suppliers, arbitration process, and the code of conduct of all players.
- *The National Payment System Act, 2007* prescribes payment system regulations.
- *The Loans and Guarantees (Authorization) Act Cap 366* of the Laws of Zambia is the primary legislation on debt in Zambia which authorises the Minister responsible for Finance to contract loans on behalf of the Republic from external and domestic sources.
- *The Public Audit Act (1980*) prescribes the duties and powers of the Auditor General.

Institutional Framework for PFM

The Ministry of Finance has the main governance responsibility for PFM, divided into a number of departments: Budget and Economic Affairs; Planning, Economic Management; Investment and Debt Management; and Financial Management and Administration. The Ministry of Finance also performs some functions through statutory bodies, namely the Bank of Zambia (BoZ), the Pensions and Insurance Authority, Zambia Revenue Authority (ZRA), Zambia Public Procurement Authority (ZPPA).

Payroll matters for civil servants fall under the mandate of the Public Service Management Division under the Office of the President at the Cabinet Office. Staffing matters are dealt with by the Public Service Commission (PSC), the Teachers Service Commission (TSC), the

Police and Prison Service Commission, the Local Government Service Commission and the Judicial Service Commission.

The Office of the Auditor General provides oversight on PFM functions and reports to Parliament through the President.

The Zambian Parliament, which consists of 150 elected members of Parliament and 10 members nominated by the President, has a tenure of five years. Parliament is responsible for making laws and providing checks and balances to the Executive. This function is performed through departmental-related Committees, general purpose committees, ad hoc committees and housekeeping committees, which monitor policy implementation of the Executive in various portfolios. The general purpose committees, such as the Estimates and Public Accounts Committees, examine Bills and scrutinise Government budgets and expenditures. Resolutions passed in Parliament as well as recommendations arising from audit reports are followed up by the Government Assurances Committee.

The Judiciary of Zambia is an independent arm of the government. Under Article 91(2) of the Constitution, Judges, Magistrates and Justices must be independent, impartial and subject only to the Constitution and the law. Article 91(1) of the Constitution defines the composition of the Judicature of the Republic as consisting of: the Supreme Court of Zambia; the High Court of Zambia; the Industrial Relations Court; the Subordinate Court; the Local Court; and any lower Courts prescribed by an Act of Parliament (e.g. Small Claims Court). Under Article 91(3) of the Constitution the Judicature shall be autonomous and it is administered in accordance with Chapter 24 of the Judicature Administration Act (JAA) of the Laws of Zambia.

Article 93(1) of the Constitution states that the Chief Justice and Deputy Chief Justice are appointed by the President and are subject to ratification by the National Assembly. According to Section 3(1) of Chapter 24 of the JAA, the President, on recommendation of the Judicial Service Commission, appoints a Chief Administrator who is responsible for the day to day running of the Judicature and the implementation of resolutions of the Judicial Service Commission. The Judicial Service Commission, chaired by the Chief Justice, is responsible for identifying and recommending candidates to the President for appointment to judicial offices.

The key features of the PFM system

The structure of GRZ is largely centralised, with central government comprising ministries, deconcentrated provincial and district administrations, and statutory authorities/autonomous agencies (referred to collectively as MPSAs).[13] District level service delivery is managed by deconcentrated units of central government at the local level for sector ministries such as Health, Education, Agriculture etc, such as the District Health Management Board, District Education Board, District Agricultural Office, etc.; these activities are co-ordinated by provincial administrations.

The day-to-day management of Zambia's PFM system is decentralised. MPSAs[14] are able to manage their own financial affairs (bank accounts and undertaking non salary payments). The

[13] Spending by local authorities accounts for less than 5 percent of general government spending, and transfers from the central government constitute a relatively small part of local government revenues, particularly in large councils.

[14] An MPSA is an institution that receives subventions/funding from Government and is equivalent to an MDA in PEFA terms.

Ministry of Finance has recently prepared the Account and Financial Management Procedures Manual to guide MPSAs on PFM matters.

MoF is responsible for managing revenue collection, planning and budgeting and expenditure management. Specifically, Budget Office is responsible for tax revenues while the Office of the Accountant General is responsible for non-tax revenue. The planning function is undertaken by the National Planning Department and Budget Office is responsible for budgeting. The management of expenditure and accounting is the responsibility of the Office of the Accountant General.

The Controlling Officers of MPSAs are ultimately accountable for their institutions' budgets.

Budget execution, accounting and reporting, and the role of IFMIS

Budget preparation

The Budget Office of the Ministry of Finance leads budget preparation. There is a unified budget for MPSAs for personal emoluments (PEs), recurrent department charges (RDCs) and capital expenditures. The detailed activity budget is reflected in one single budget document called the Yellow Book.

Revenue collection

The Zambia Revenue Authority is mandated to collect tax revenue for Government, which is then banked in the Consolidated Fund account (Control 99) at BoZ. Revenue collection data is provided by ZRA to MoF. Other revenue collection MPSAs also collect and deposit the funds into Control 99, and this information is made available to the Treasury at MoF.

Budget execution

The MoF leads in the budget execution process, which starts with the detailed budget estimates being prepared in a separate stand-alone database (Access) and then being uploaded into the Budget Module in the Integrated Financial Management Information System (IFMIS) for the MPSAs where it has been rolled out and the legacy system, the Commitment Control and Financial Management System (CC/FMS), for the MPSAs not yet on IFMIS. The IFMIS has been rolled out to 28 MPSAs to date, out of a total number of 53.

Cash/debt management

The Central Bank of Zambia (BoZ) manually provides daily information to MoF on the balances on Government bank accounts held there and monthly bank statements. The accounts at BoZ act as holding accounts and any payments made are processed at commercial banks which hold the mirror accounts. The way the system works is that MPSAs prepare cheques for payment and these are listed on a backing sheet (schedule of payments) which shows the cheque number, payee, expenditure item code, and date of payment as well as the amount of the payment. The backing sheet is submitted both to BoZ and to the commercial bank and facilitates the processing of payments by the commercial banks. When this is received by BoZ, the total amount of payments is then transferred to the commercial bank, where the cheques are presented for payment to beneficiaries.

Payroll management

The Payroll Management and Establishment Control System (PMEC) system is made up of the following three modules:

- Organisational Management Module, for maintenance of the organisational structure (Establishment Control);
- Personnel Administration, which is for maintenance of payroll information; and
- Payroll Management Module, which is for payroll management including processing of salaries.

Initially the PMEC system was centralised and any changes to the payroll were submitted on standard forms by MPSAs to the Public Service Management Division (PSMD) which manages the system. However, in 2007, PSMD started the decentralisation of the PMEC system, beginning with Northern Province. In 2008, the system was rolled out to all the Provincial administrations, namely Copperbelt, Central, Western, North Western, Southern, Eastern and Luapula Provinces. After completing this roll out, PSMD started the roll out to all other MPSAs in 2010. MPSAs are now able to update the PMEC system for certain changes (death, resignations, retirement etc.) except for transfers which are still done centrally. The changes to the database still require authorisation from the PMEC unit in Lusaka.

Reporting

Budget performance reports are prepared on a monthly, quarterly and annual basis. Currently, this information is being produced from two systems, the IFMIS for those MPSAs where it has been rolled out and the CC/FMS for those where the IFMIS is not yet rolled out. The financial statements for 2011 were produced from the CC/FMS. Monthly and quarterly expenditure reports are based on expenditure outturn data collected from returns prepared by MPSAs. User reports can be generated at any time. Returns may not be complete, particularly for sector ministries that operate at district level. Annual expenditure reports are based on audited and unaudited appropriations accounts.

Annual accounts

These are prepared by each MPSA in respect of his/her head and submitted to the Office of the Accountant General for review and consolidation. Thereafter, the accounts are submitted to the Auditor-General, who publishes a report on matters discovered during the audit that could not be resolved during the audit process. The detailed audited accounts are then published by the Office of the Accountant General. The report and accounts are reviewed by the Public Accounts Committee (PAC) of the National Assembly, which then reports its recommendations to the full House.

3. Assessment of the PFM Systems, Processes and Institutions

3.1 Introduction

The following sub-sections provide the detailed assessment of the PFM indicators contained in the Public Finance Management-Performance Measurement Framework (PFM PMF). The scoring methodology takes into account only the existing situation and does not cover on-going and planned activities that may result in higher scores under future assessments, but these are summarised at the end of the discussion on each section.

Criteria used to score each of the indicators were based on the PEFA Guidelines and the accompanying instructions and clarifications[15], which indicate the information bases for each indicator (e.g. how many years' performance to assess and which fiscal year(s) to use).

Each indicator contains one or more dimensions in order to assess the key elements of the PFM process. Two methods of scoring are used. Method 1 (M1) is used for all single dimensional indicators and for multi-dimensional indicators where good performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator (in other words, by the weakest link in the connected dimensions of the indicator). A plus sign is given where any of the other dimensions are scoring higher.

Method 2 (M2) is based on averaging the scores of individual dimensions of an indicator. It is prescribed for multi-dimensional indicators, where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator. A conversion table for 2, 3 and 4 dimensional indicators is used to calculate the overall score. The PEFA handbook ("PFM Performance Measurement Framework", www.pefa.org) provides detailed information on the scoring methodology. Effective January 2011, a revised methodology is being used for PIs 2, 3 and 19.

3.2 Budget Credibility

Good practice in public financial management emphasises the importance of the budget being credible so that planned Government policies can be achieved. Budget credibility requires actual budgetary releases to be similar to originally voted budgets and requires appropriate fiscal discipline to be in place. The indicators in this group assess to what extent the budget is realistic and implemented as intended.

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

In all three years assessed (2009, 2010, and 2011), aggregate actual expenditure was significantly higher than the approved budget (Table 5). Whilst revenues were above target (PI-3), the expenditure deviations were as a result of suppressing certain budgetary provisions and supplementing other votes. Notable expenditure deviations were observed in the areas of maize marketing and production (Ministry of Agriculture had a 145.8 % deviation from its original budget in 2010 and 141.9% in 2011). In addition to higher revenue collections,

[15] Available at www.pefa.org.

actual direct budget support by co-operating partners (CPs) exceeded the budgeted amount by 32 percent in 2009 and by 5% in 2011 (D-1), thus explaining some of the higher-than-planned expenditure in those years. It fell short of the budgeted amount in 2010, however.

The specific data for the analysis are found in Annex A.

Table 5: Budget execution rate for total primary expenditures, 2009-2011

K. millions	2009	2010	2011
Original budgeted total primary expenditure 1/	11,389,208	13,164,928	16,108,926
Actual primary expenditure 1/	12,607,958	15,608,350	21,349,932
Difference btwn actual & original budgeted primary expenditure	1,218,750	2,443,422	5,241,006
Difference as % of original budgeted primary expenditure (%)	10.7%	18.6%	32.5%

Sources: Annual budget estimates, annual Financial Report.
Note: 1/ Primary expenditures in this case are defined as total expenditure less debt service payments and donor project expenditures to the extent possible. Expenditures for all donor-funded projects are unable to be separated out fully in the budget execution reports.

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-1: Aggregate expenditure outturn compared to original approved budget	**B**	**D**	**Performance has deteriorated due to a significant increase in deviations between aggregate budgeted and actual expenditures.** During the last three years, the percentage deviations between actual and budgeted primary expenditures as a proportion of the original approved budget were: 2009: 10.7% 2010: 18.6% 2011: 32.5% Thus, in two of the last three years, actual expenditures deviated from budgeted expenditures by more than 15% of budgeted expenditures. *Source: Annual Budgets (Yellow Book) and Financial Reports, 2009-2011*

PI-2: Expenditure composition variance and average contingency[16]

The rating for PI-2(i) indicates that there has been a large composition of variance during the last three years (Table 6), with some ministries (particularly Ministries of Education, Health, Agriculture and Works and Supplies) receiving a much larger percentage increase compared to the increase in aggregate expenditure, other ministries showing smaller percentage increases compared to the aggregate percentage increase, and others having out-turns lower than the approved budget. The specific data for the analysis are found in Annex A.

[16] The rating of this indicator was based on the revised PEFA criteria (January 2011).

Table 6: Expenditure Composition Variance Across Budget Heads

FY	Composition Variance 1/
2009	9.2%
2010	26.4%
2011	29.9%

1/ Defined as the sum of the absolute deviations for each MPSA from the 'adjusted' budget, defined as the original budget for the MPSA plus/minus the aggregate deviation (as assessed under the revised methodology for PI-2 that came into effect in January 2011).
Source: Annual Budgets (Yellow Book) and Financial Reports, 2009, 2010 and 2011

In terms of the use of contingency amounts, Zambia conforms to international good practice in that no releases are made directly to the contingency vote but to votes against which the unforeseen expenditure is to be made. It should further be observed that Zambia has in the period 2009-11 kept the provision at less than one percent of the original budget.

Indicator (M1)	Score 2008 PEFA	Re-rated 2008 PEFA[1]	Score 2012 PEFA	Assessment
PI-2: Composition of expenditure out-turn compared to original approved budget	**D**	**C+**	**D+**	**Ratings not directly comparable between 2008 and 2012, as the PEFA criteria for this indicator changed in January 2011.**
(i) Variance in expenditure composition during last 3 years	*D*	*C*	*D*	During the last three years, the variances in the composition of primary expenditures, excluding contingency, across budget heads were: 2009: 9.2% 2010: 26.4% 2011: 29.9% Thus, the variance in expenditure composition exceeded 15% in two out of the last three years. *Source: Annual Budgets (Yellow Book) and Financial Reports, 2009-2011*
(ii) Average expenditure charged to contingency vote	*N/A*[17]	*A*	*A*	During the last three years, the average expenditures charged to the contingency vote were: 2009: 0% 2010: 0% 2011: 0% Expenditures used for emergency or unforeseen events were vired to individual MPSAs. *Source: Annual Budgets (Yellow Book) and Financial Reports, 2009-2011*

1. Using revised rating criteria. Note that the difference in rating for 2008 from a D (old scoring criteria) to a C (new scoring criteria) reflects the difference between the two scoring guidelines in percentage variances across the four scoring bands.

[17] This dimension was introduced in January 2011.

PI-3: Aggregate revenue out-turn compared to original approved budget[18]

Accurate forecasting of domestic revenue is a critical factor in determining budget performance, since budgeted expenditure allocations are partly based on that forecast. A comparison of budgeted and actual revenue provides an indication of the quality of revenue forecasting. Table 7 provides a summary of the data for the period 2009-2011. Actual domestic revenue performance over the last three years compared to the budgeted amounts was 96.8%, 113.5% and 123.8%, respectively. The specific data for the analysis are found in Annex A.

The strong revenue performance in all three years was largely driven by greater income tax collections. In 2009, collections were hit by the economic slowdown. Despite the general poor performance, income tax revenues during 2009 performed positively, largely due to increased compliance activities. The strong revenue performance in 2010 reflected both economic recovery and the coming on-board of some mining companies to pay corporate tax, the scale of which was higher than projected. The collections in 2011 included the payment of mining tax arrears arising from: the change in the corporate tax rate for mining companies, increased mineral royalty rates and the now-repealed windfall tax, which together amounted to K1.75 trillion. Moreover, general recovery from the global economic crisis favourably affected the revenue performance in 2011.

Table 7: Domestic Revenue Performance

K billions	**2009 Budget**	**2009 Actual**	**% Diff.**	**2010 Budget**	**2010 Actual**	**% Diff.**	**2011 Budget**	**2011 Actual**	**% Diff.**
Total Domestic Revenue	**10,661**	**10,314**	**-3.3%**	**12,107**	**13,742**	**13.5%**	**15,769**	**19,522**	**23.8%**
Tax Revenue	**10,192**	**9,660**	**-5.2%**	**11,385**	**13,126**	**15.3%**	**15,230**	**18,889**	**24.0%**
Income Tax	4,530	5,073	12.0%	5,730	7,326	27.9%	7,801	11,520	47.7%
Excise Duties	1,659	1,023	-38.3%	1,397	1,372	-1.8%	1,756	1,663	-5.3%
Value Added Tax (VAT)	2,550	2,476	-2.9%	2,940	3,160	7.5%	3,999	3,965	-0.9%
Customs and Export Duties	1,453	1,089	-25.0%	1,318	1,267	-3.9%	1,675	1,742	4.0%
Non-Tax	**469**	**654**	**39.5%**	**722**	**616**	**-14.7%**	539	633	**17.5%**
User fees, charges, other	469	654	39.5%	722	616	-14.7%	539	633	17%

Source: Financial Report 2011.

[18] The rating of this indicator was based on the revised PEFA criteria (January 2011).

Indicator (M1)	Score 2008 PEFA	Re-rated 2008 PEFA[1]	Score 2012 PEFA	Assessment
PI-3: Aggregate revenue out-turn compared to original approved budget	**A**	**A**	**C**	**Ratings not directly comparable between 2008 and 2012, as the PEFA criteria for this indicator changed in January 2011.** During the last three years, actual domestic revenues as a % of budget projections were: 2009: 96.8% 2010: 113.5% 2011: 123.8% Thus, actual domestic revenue was between 92% and 116% of budgeted domestic revenue in two of the last three years. *Source: Annual Budgets (Yellow Book) and Financial Reports, 2009-2011*
1. Using revised rating criteria. Note that the difference in rating for 2008 from a D (old scoring criteria) to a C (new scoring criteria) reflects the difference between the two scoring guidelines in percentage variances across the four scoring bands.				

PI-4: Stock and monitoring of expenditure payment arrears

Payments arrears can arise from unpredictability in financial resource inflows, combined with problems with budgeting and budget execution systems. The arrears have to be paid off at some point (providing that the original commitments were legally entered into) out of future budgets, thereby reducing the resources available for financing the delivery of services in future years. In general, a persistent arrears problem reduces the credibility of the budget as a tool for providing for the public goods and services required by society.

(i) Stock of expenditure payment arrears as a percentage of total expenditure

Expenditure payments arrears in Zambia are defined by convention as payments more than 30 days overdue. Table 8 presents data on expenditure arrears, as provided by the Controller of Internal Audit (CoIA).

Table 8: Payments Arrears, 2008-2011

K blns, end-year	2008	2009	2010	2011	2012 (prelim)	Comments
A. Total arrears by type	***193.1***	***219.5***	***572.8***	***533.1***	***459.1***	
PEs 2/	30.7	40.4	223.6	214.9	197.7	
RDCs 3/	27.9	27.9	172	135.1	30.3	
Utilities 4/	58.2	66.1	64.6	86.4	109.0	
Provisions for security personnel	33.8	43.1	51.9	48.1	70.7	
Capital expenditure	25.2	24.5	15.5	28.3	20.3	
Allowances (e.g travel allowance)	11.1	11.8	38.7	18.3	17.5	
Motor vehicles	6.2	5.7	6.5	2	13.6	
Total actual expenditure 4/		**12,274.6**	**15,328.0**	**12,425.9**	**NA**	
Arrears as % total expenditure		*1.8*	*3.7*	*4.3*	*NA*	
B. Total arrears by MPSA	***144.7***	***159.3***	***490.2***	***452.6***	***297.9***	
As % of total arrears	*74.9*	*72.6*	*85.6*	*84.9*	*64.9*	
Ministry of Health	10.5	9.7	242.6	205.9	130.2	Mainly PEs & RDCs (PEs larger) in 2011 & 2010, mainly RDCs & utilities in 2008-09.
Zambia Police	39.9	49.6	44.4	94.2	99.4	Mainly utilities (mainly water) & provisions in 2011, virtually all utilities in 2008-2010.
Electoral Commission	0.4	0.6	92.2	45.2	0.5	Almost all RDCs
Ministry of Works & Supply	4.4	11.4	25.6	41.9	5.3	Mainly capital
Ministry of Home Affairs	30.9	38.2	46.1	32.8	28.8	Provisions, utilities, RDCs, allowances
Ministry of Agriculture	2.7	13.5	16.1	18.5	28.7	PEs, utilities & RDCs in 2011, mainly PEs in 2008-2010
Ministry of Defence	23.3	21.5	23.2	14.1	0.3	Mainly PEs & utilities in 2011 and 2012, provisions in 2008-2010
Ministry of Local Government & Housing	23	14.8			0.5	Mainly capital expenditure in 2009, utilities in 2012
Ministry of Foreign Affairs	9.6				4.2	Mainly RDCs and utilities

Source: Quarterly Internal Audit Reports on Verification of Domestic Arrears, prepared by CoIA in MoF.

Notes: 1/ In line with the PEFA Guidelines, the assessment of this indicator has been made on the period 2009-2011.

2/ PEs are components of personal emoluments provided under Conditions of Service, such as leave pay, resettlement allowance and terminal benefits.

3/ RDCs = Recurrent Departmental Charges, which are non-wage recurrent expenditures excluding utility bills.

4/ ZAMTEL, ZESCO, and water companies.

5/ Equals total actual expenditure, as reported in MoF's Financial Reports, less debt service and arrears clearance

Arrears for personal emoluments (PEs) and Recurrent Departmental Charges (RDCs) jumped sharply in the last quarter of 2010, partly because these had not been recorded previously. The main reasons for the arrears are: under-budgeting for PEs and utilities; under-funding due to insufficient cash availability relative to the approved budget; MPSAs entering into expenditure commitments not covered by approved budgets; and in-year budgetary shortages leading MPSAs to prioritise other categories of spending over utilities. Provincial and district administrations visited by the assessment team indicated that their proposed 2012 budgets for utility expenses were reduced significantly by their parent ministries (the Kafue District administration indicated a cut of two thirds) in order to provide more funds for service delivery. The allocations they received during 2012 were insufficient for paying utility bills and arrears are being generated as a result. In addition, PE arrears (particularly for non-salary PE-related emoluments, e.g. leave days) have increased significantly in recent years, which may in part reflect an issue of under-budgeting.

Payments to suppliers (excluding utility suppliers) from Lusaka-based line ministries are generally paid on time, particularly in the case of those MPSAs that are using IFMIS, which has a commitment control feature linked to both budget provision and cash availability. This is not the case, however, at provincial administration and district level (part of central government), where an informal supplier credit system seems to operate, in large measure due to continual delays in releases of funds by the parent line ministries in Lusaka (in turn, due to delays in releases of funds by MoF).

At just under 5%, expenditure arrears represent a relatively small proportion of total expenditure, but total arrears have increased in the last three years. The figures shown exclude pension arrears, data for which were not provided to the assessment team. Nonetheless, these are known to be significant, both at central and local government level.

At provincial and district administration levels[19], the arrears are a much higher proportion of their budgets. Lusaka Provincial Administration informed the assessment team that its arrears on PEs amounted to K 5.6 billion at the end of 2011. Some of these have since been paid off, but nevertheless the amount had now reached K 6.1 billion. The situation at Southern Province Provincial Administration is similar.

(ii) Availability of data for monitoring the stock of expenditure payment arrears

Whilst the IFMIS can in principle track arrears to suppliers through recording the dates of invoices submitted by them, this provision is not currently being used. Instead, under the direction of the Controller of Internal Audit Unit (CIAU), internal auditors in MPSAs, in conjunction with the Accounts Sections of MPSAs, ascertain the level of arrears every quarter, supported by checking of commitment and expenditure ledgers, payments vouchers, backing sheets and actual bills.[20] Data on pension arrears are available, but are not included in the quarterly reports of the CIAU; the data were not available to the assessment team.

[19] Part of central government.

[20] Backing sheets are documents that summarise authorised payments to be made by a bank.

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-4: Stock and monitoring of expenditure payment arrears	**B+**	**C+**	**Decreased performance, due to an increase in the stock of expenditure arrears.**
(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	*B*	*C*	The stock of expenditure payment arrears as a percent of actual total expenditures in the most recently completed fiscal year (2011) was 4.3%. The data show that this represented an increase in the share over the previous two years. *Source: Controller of Internal Audit, MoF*
(ii) Availability of data for monitoring the stock of expenditure payment arrears	*A*	*A*	The Controller of Internal Audit Unit in MoF collects reliable data each year on the stock of expenditure payment arrears (by age) showing at the end of the year.

3.3 Comprehensiveness and transparency

The indicators in the Comprehensiveness and Transparency dimension of PFM assess to what extent the budget and fiscal risk oversight are comprehensive, as well as to what extent fiscal and budget information is accessible to the public.

PI-5: Classification of the budget

This indicator assesses the extent to which the budget classification system enables the tracking of budgeted expenditure on an administrative, functional and economic classification basis.

The budget classification system used for budget formulation, execution and reporting is documented in MoF's Accounting Manual. In the main, budgets are prepared, executed and reported by economic item and by programme/activity, with the budget by economic item reflected in the Green Paper (MTEF), a very summarised version in the Budget Yellow Book and in Statement B of GRZ's annual Financial Report; and programmes/activities reflected in detail in Statement C in both the Yellow Book (budget book) and the MPSAs' annual financial accounts. During the budget process (beginning with budget preparation), MPSAs are required to capture inputs according to the internationally accepted Classifications of the Functions of Government (COFOG). The COFOG sub-functions (72) are not captured. The functional classification for budget preparation is shown in the Green Paper (MTEF) and in the document containing the Budget Speech (part of the annual budget presentation to Parliament) but not in the Yellow Book. For budget reporting, the functional classification for actual expenditures is shown in Table D of the Financial Report.

The economic classification system is compliant with GFS, and the functional classification is consistent with COFOG. Whilst a programme/activity classification is used, it contains an increasing number of economic items (including utilities, added recently), which overlap with the economic classification and hence make the programme category less distinct (separable) and thus classified transactions less consistent over time.

Specifically, the economic classification coding system is as follows:

- 21: Personal Emoluments, 57 items, at four and six digits level (e.g. salaries Division 1 is 211140.

- 22: Use of goods and services, 145 items, at four and six digit level (e.g. *227110*, road and rail fares).
- 24: Financial Charges, 6 items, four and six digit level;
- 25: Social benefits, 4 items, four and six digit level;
- 26: Grants and other payments, 9 items, four and six digit level;
- 29: Constitutional & Statutory, 1 item
- 31: Assets; 81 items, four and six digit level (e.g. 311104, construction of schools); the codes do not explicitly differentiate between construction and purchase of equipment, as is the GFS convention; a reader would have to know beforehand which category is which.
- 32: Advances made (though this is not explicitly stated), 13 items, 4 and 6 digits; these are supposed to be 'below-the-line items', but they are shown as expenditures.
- 41 and 42: Liabilities incurred; short-term including arrears, and long-term, 12 items, four and six digits.

The classification at MPSA level, as reflected in the Budget Estimates for 2013, is as follows, using the Ministry of Education as an example:

Head: e.g. 80, Ministry of Education

- *Sub-Head*: e.g. 01, Headquarters
  - *Unit*: e.g. 04, Financial Management
    - *Programme:* e.g. 5009, Financial Management & Accounting.
      - *Activity*: e.g. 013, Funds Management.

The total string is therefore: 80-01-04-5009-013.

During the field work, interviewees often referred to the mis-match between the codes used in the Budget Estimates and the codes used in IFMIS Unit. Originally, there were problems, but harmonisation was broadly reached in 2010, so that the draft budget, prepared in Access, could be uploaded into IFMIS. Some problems remained: (i) Budget Department introduced new programmes without informing IFMIS, resulting in a mis-match between codes, to the extent that budget execution could not take place in some components (as informed by Ministry of Agriculture at the meeting with staff); (ii) IFMIS aggregated some line item codes (e.g. types of motor cycles), also resulting in a mis-match.

On-going and planned activities

According to the IFMIS unit, a meeting is to be held in the near future in MoF to discuss the issue. A validation meeting is to be held during week of July 16 to discuss mis-matches. The complexity of the budget structure may also be discussed in order to determine how to simplify it. Simplification could include a reduction in the number of line items. Programme budgeting implies managerial flexibility in using inputs, and large numbers of input codes that require higher-level approvals for reallocations between them hinder such flexibility.

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-5: Classification of the budget	**A**	**B**	**Limited reduction in performance due to changes in programme classification which make it less clear and less consistent over time.** The classification system used for budget formulation, execution and reporting is based on the economic, administrative and functional classifications.[21] The economic classification system is compliant with GFS, and the functional classification is consistent with COFOG. Whilst a programme/activity classification is used, it contains an increasing number of economic items (including utilities, added recently), which overlap with the economic classification and hence make the programme category less distinct (separable) and thus classified transactions less consistent over time.

PI-6: Comprehensiveness of information included in budget

Annual budget documentation should inform the executive, the legislative, and the general public and assist in informed budget decision-making and transparency and accountability. In addition to the detailed information on revenues and expenditures, the annual budget documentation should include information on the elements in Table 9. The assessment is based on the most recent budget presented to the legislature for 2013.

Annual budget documentation is considered to include: the Medium Term Expenditure Framework (the Green Paper), the Minister's Budget Address, and the Budget Estimates (the Yellow Book). Table 9 summarises the main elements of the budget and their availability in the budget information.

[21] The functional classification for budget preparation is shown in the document containing the Budget Speech (part of the annual budget presentation to Parliament) and for budget reporting in Table D of the Financial Report

Table 9: Information Provided in the Budget Documentation

	Budget documentation benchmarks	Provided?	Notes
1.	*Macro-economic assumptions*, incl. at least estimates of aggregate growth, inflation and exchange rate	Yes	In Green Paper and Budget Address
2.	*Fiscal deficit*, defined according to GFS or other internationally recognised standard	Yes	In Green Paper (issued in August) and the Budget Address (under Macroeconomic Objectives), but not in the Budget Estimates.
3.	*Deficit financing*, describing anticipated composition	Yes	In Green Paper and in Budget Address (the latter in terms of GDP only)
4.	*Debt stock*, incl. details at least for the beginning of the current year	No	
5.	*Financial assets*, incl. details at least for the beginning of the current year	No	
6.	*Prior year's budget out-turn*, presented in the same format as the budget proposal	No	
7.	*Current year's budget* (revised budget or estimated out-turn), presented in the same format as the budget proposal	Partial	Revenue and grants only
8.	*Summarised budget data for both revenue and expenditure* according to the main heads of the classification used, incl. data for current and previous year	No	
9.	*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	Yes	Budget Address

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-6: Comprehensiveness of information included in budget documentation	**B**	**C**	**Performance has diminished.** Four out of the nine benchmarks are met, versus 6 in 2008. The 7th benchmark is not met, as only revised revenue outturns are shown and not expenditure outturns. The change in ratings may be due to the preparation of the budget earlier in the year, at which time revised estimates are not available.

PI-7: Extent of unreported government operations

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 governments to allow a complete picture of government revenue, expenditures across all categories, and financing.

This indicator assesses the level of unreported extra-budgetary operations (EBOs) at the central government level as defined by IMF GFS[22]. Reporting of EBOs should cover planned/budgeted expenditure, actual expenditure, and annual financial statements either through consolidation with other central government expenditure, or shown in a separate document presented to the legislature. The spending by MPSAs of own-source revenues also potentially represents an EBO, if they are allowed to retain the revenue for spending outside the approved budget, rather than surrendering it to MoF. Own-source revenues include user fees and charges, fines and rental income.

(i) Level of extra-budgetary expenditure (other than donor-funded projects), which is unreported, i.e. not included in fiscal reports

The estimates of revenue and expenditure contained in the Yellow Book are comprehensively reported on in the Financial Report. Budgetary operations which are not comprehensively included in the budget, nor reported on, include: tax expenditures (e.g. tax concessions), full income/expenditure information on non-tax revenues (e.g. user charges), and full income/expenditure information on grant-aided institutions and statutory funds. Of these, non-tax revenues increased in 2010 and 2011, but internal audit reports in 2008 and 2009 indicate that some non-tax revenues (NTR) are being held back by MPSAs, and there is no indication that this situation has changed. There is a risk that the full collection of NTRs is not being reported in the Financial Report, though it is difficult to quantify this. The extent of fiscal operations for grant-aided institutions not included in fiscal reports is very difficult to estimate, not least because it is difficult to get a full list of grant-aided institutions; whilst the Financial Report has a list of some of these institutions in an annex, it indicates in a note to the annex that the list is not necessarily complete, and comprehensive data sources are difficult to obtain.

(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports

Externally-financed expenditure is significant in Zambia, as indicated in Table 10.

[22] In GFS terminology, central government comprises all units at central level carrying out government policies including not only MPSAs, but also non-market non-profit institutions that are controlled by and mainly financed by government (statutory funds, trust funds, special funds, social security funds and other autonomous agencies) but excluding local authorities and public business enterprises.

Table 10: Externally-financed expenditures (K billion)

	2010 Budget	2010 Actual	Actual as % of Budget	2011 Budget	2011 Actual	Actual as % of Budget
Total external finance	**3,123.7**	**2,310.8**	**-26.0%**	**3,547.5**	**3,344.1**	**-5.7%**
o/w Loans	697.1	979.4	40.5%	1,959.9	1,150.1	-41.3%
o/w Grants	2,426.6	1,331.4	-45.1%	1,587.6	2,194.0	38.2%
GRZ	16,717.8	17,252.1	3.2%	20,537.3	22,995.7	12.0%
External finance as % of GRZ	18.7%	13.4%		17.3%	14.5%	

Source: Yellow Book 2010, 2011, Financial Report 2010, 2011

External loans are reasonably predictable and are monitored by MoF's Investment and Debt Management Department (IDM), which is being reorganised and modernised, including through upgrading of the Debt Management and Financial Analysis System (DMFAS) software package. However, whilst information on loan-financed projects is provided in the Yellow Book, some loan-financed projects are not captured in the Financial Report.

Information on projects which are directly financed by donors are substantially under-reported in the budget. The Accountant General noted in the 2010 and 2011 Financial Reports that 38 percent (K516.8 billion) and 84.3% (K 3,413.8 billion), respectively, out of total actual donor-funded expenditure of K 1,331.4 billion (2010) and K 4,093.9 (2011) was funded directly and did not go through the Office of the Accountant General. The details for these are not shown in the Financial Report, indicating that a process conveying this information to the Accountant General is not in place.

In practice, based on the most recently available Yellow Book (2013) and the Financial Report (2011), the coverage in fiscal reports of actual revenues and expenditures on donor-funded projects, including loans, is seriously deficient.

On-going and planned PFM activities

The ETC Department of MoF is currently developing software for a bespoke Donor Assistance Database. It is expected to be operational in 2013.

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-7: Extent of unreported government operations	**B+**	**NR**	**Performance has deteriorated, particularly in terms of the extent of donor-funded projects reported on in fiscal reports.**
(i) Level of unreported extra-budgetary expenditure	*A*	*NR*	Recent evidence was insufficient to estimate meaningfully the level of unreported government operations, which include fiscal operations of grant-aided institutions, non-tax revenues collected by MPSAs, and tax expenditures.
(ii) Income/expenditure information on donor-funded projects	*B*	*D*	Based on the most recently available Yellow Book (2013) and the Financial Report (2011), the coverage in fiscal reports of actual revenues and expenditures on donor-funded projects is seriously deficient. In particular, whilst information on loan-financed projects is provided in the Yellow Book, some loan-financed projects are not captured in the Financial Report.

PI-8: Transparency of Inter-Governmental Fiscal Relations

This indicator assesses the transparency of transfers from central government to sub-national (SN) governments for the use of these funds during the last completed FY 2011.

(i) Transparency and objectivity in the horizontal allocation among Sub-national governments

Sub-national government in Zambia refers to local councils, which themselves comprise city councils, municipal councils and district councils.[23] Departments at provincial and district level are deconcentrated representation of central government. Within Zambia's 10 provinces are 102 Councils consisting of 4 City Councils, 14 Municipal Councils and 84 District Councils.[24] The structure of sub-national government is described in the Local Government Act 1991, and the amended Act 2004. Transfers from central government to Councils are managed by the Ministry for Local Government and Housing (MLGH).

The approved Budget for central government transfers to Councils in 2011 was K 254.7 billion, or 0.9% of the total Budget. Transfers from central government constitute a relatively small part of a Council's revenues (typically 15%), whose revenue sources typically comprise property taxes, fees and charges. Expenditures by Councils on services are largely on drainage and feeder roads.[25]

Central government transfers to local governments (cities, municipal councils and district councils comprise five types of grants: (i) grants in lieu of rates on government property; (ii) restructuring grants, intended to clear local government debts, particularly for unremitted pension contributions; (iii) recurrent grants, to cover both service provision and administrative costs, including salaries; (iv) capital grants for capital projects in the local government area; and (v) Constituency Development Fund (CDF).

[23] Departments at provincial and district level are deconcentrated representation of central government.

[24] 30 district councils were created within the last 12 months, of which 8 so far have been gazzetted (given official status).

[25] Water supply and sanitation, and waste management are contracted out to private companies.

Specifically, the majority of these grants are provided to individual councils on the basis of MoLGH-specified criteria which are rules-based and transparent. Specifically, the Service Delivery allocation of the Recurrent Grant is determined by a formula. The two other components of this Grant and the Restructuring, Lieu of Rates and Capital Grants are based on transparent rules, while the Constituency Development Fund (CDF) is the same amount for each constituency irrespective of population size. The service delivery formula and rules governing distribution and use of Grants are communicated to Councils in MLGH annual budget circulars. Thus, more than 50% but less than 90% of the value of central government transfers to sub-national governments are rules-based.

In 2011 transfer to councils was distributed across Councils (i.e. horizontally), as follows. The Grant in Lieu of Rates (9%) is budgeted in line with the actual value of Government properties on the Approved Valuation Roll. This roll is updated every five years by MLGH.

The Recurrent Grant (30%) was divided into three components, with effect from 2009:

(a) *Service delivery*, the allocation of which is set by a formula that uses population size linked to five other variables: % weighted extreme poverty index; % of population lacking access to clean water, % of population lacking access to sanitation facilities, % of population lacking access to input market, % of household lacking access to public transport.
(b) *Institutional* to meet recurrent operational costs at the discretion of the Council.
(c) *Crop levy* to compensate councils for the abolition of Crop Levies by Government in 2009. The Government is currently considering scrapping this component and reintroducing the crop levy because the compensation scheme is not financially sustainable.

The Restructuring Grant (9%) is aimed at clearing arrears in terminal benefits. The Grant is distributed in accordance with the actual debt status of Councils. Most Councils are heavily indebted. A 2010 MLGH Verification Exercise found that the total debt of Councils had been continuously increasing between 2006 and 2009. The data reveal that 55% of the debt of Councils at the end of 2009 consisted of default in paying the Personal Emoluments of Council's staff and Councillors. Councils are informed of the amount to be paid to Local Authorities Superannuation Fund (LASF) annually, but are not responsible for making payments. This has been done since 2009 by MLGH on the grounds that, based on past experience, Councils will not make the payments. LASF has difficulty paying pensions, as it lacks revenue due to the Government policy decision in the 1990s to sell off council houses, which deprived LASF of rental revenue. The LASF is currently not adding new members, so MLGH anticipates that it will collapse in 2017.

District Councils are supported without condition, but Municipal and City Councils receive the Restructuring Grant on condition that MLGH and the Councils share the debt burden in the proportion of 50:50. Councils can raise domestic loans from commercial banks subject to approval of MLGH using their assets such as buildings and markets as collateral. In practice local governments do not borrow except for the 4 main city councils, for example, Lusaka City Council was servicing 3 bank loans in 2010.

The Capital Grant (9%) is distributed on the basis of infrastructure project proposals approved by MLGH. In 2011 priority was given to construction of civic centres, staff housing and basic amenities.

Grants may be withheld by MLGH if revenue performance does not meet previously specified targets. In 2011 MLGH informed the Councils that failure to collect more than 75% of the budgeted amount for revenues would result in a reduction of grants for that Council in 2012. Similarly, delay or failure by a Council to submit an annual financial statement would result in withholding of 2012 grants. For underperforming Councils these sanctions have not been invoked in 2012.

The CDF (43%) is budgeted by MLGH on the basis of the number of constituencies. Guidelines are issued annually by MLGH on the implementation of CDF projects. At present the CDF amount is the same for each constituency.

Thus, in summary, most of the five types of grants provided to local councils (with the exception of restructuring grants and capital grants) are provided to individual councils on the basis of MoLGH-specified criteria which are known in advance; although these are not formulae-based in the main,26 they appear to be transparent.   Based on the most recent data available to the assessment team (for 2010)[27], transfers which were transparent and based on MoLGH-specified rules or criteria represented between 56.3% and 85.2% of the value of total transfers.[28]

(ii) Timeliness of reliable information to SN governments on their allocation

The amendment to the constitution in 2009, bringing forward approval of the central government budget by December, means that Councils receive notification of their approved budgets before the end of the financial year. This was the case in 2010, 2011 and 2012. Councils do not now have to rework their budgets in the second quarter of the year, as they did previously when the budget was approved for the next financial year in March or April. However, this information comes too late in the Councils' budget preparation cycle, with little time to adjust their draft budgets significantly before the start of the fiscal year.

(iii) Extent of consolidation of fiscal data for general government according to sectoral strategies

There is no consolidation of fiscal data for central and local governments according to sectoral strategies. Up to 2010 central and local government used different classification systems. For 2011 budget preparation and execution, MLGH instructed Councils to use the same classification and codes as central government. The electronic and hard copies of the Integrated Chart of Accounts were distributed to Councils and also made available on the MLGH website.

Progress since 2008 PEFA assessment

Dimension (ii) merits an increase from D to C, as data on allocations are now issued before the end of the fiscal year, though only just before the end. In 2008 MLGH issued the Second Edition Finance Manual for Local Authorities in Zambia. In 2009 the MTEF adopted by central government in 2004 was piloted together with ABB in 7 Councils (the pilots are on-going in 2011) and the MTEF/ABB Manual for Local Government in Zambia was also

[26] According to MoFNP, only the service delivery allocation of the recurrent grant is determined by a formula.

[27] Detailed data on transfers to individual councils for 2011 were not available.

[28] The range takes into account the fact that recurrent grants are used to pay certain line items (e.g. salaries) in local councils' budgets. As there is thus interaction between local councils and MoLGH during budget preparation (in setting the line item budget), the total amount provided to local councils may be considered to be non-transparent in advance. Thus, the lower percentage in the range (56.3%) is without recurrent grants, and the upper percentage (85.2%) assumes 100% coverage of recurrent grants.

issued. For 2011 central and local government were placed on the same classification system. The Local Government Service Commission became effective in 2011 with the aim of posting qualified staff in Councils.

Indicator (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-8: Transparency of Inter-Governmental Fiscal Relations	**D+**	**C**	**Improvement in performance due to change in budget calendar so that central govt. budget is approved before end of the year, so that Councils have more certain information on grants they will receive.**
(i) Transparency and objectivity in the horizontal allocation amongst Sub National Governments	*B*	*B*	The horizontal allocation of the majority (more than half but less than 90%) of transfers from central government to local councils are made using transparent, rule-based criteria, in the form either of a formula (e.g. the service delivery component of the recurrent grant), or of clear rules communicated to councils in budget guidelines.
(ii) Timeliness and reliable information to SN governments on their allocations	*D*	*C*	Following the constitutional amendment in 2009, reliable information on the amounts from central government to be transferred to local councils were communicated by central government in the relevant December prior to the coming fiscal year in 2010, 2011 and 2012. However, this information comes too late in the Councils' budget preparation cycle, with little time to adjust their draft budgets significantly before the start of the fiscal year.
(iii) Extent of consolidation of fiscal data for general government	*D*	*D*	Although central and local government now use the same classification system, there is no consolidated fiscal report prepared for central and local governments.

PI-9: Oversight of aggregate fiscal risk from other public sector entities

This indicator assesses the extent to which central government monitors and manages fiscal risks with national implications arising from activities of autonomous government agencies (AGAs), public enterprises and activities at SN Government level. Fiscal risk can take the form of debt service defaulting (with or without government guarantee), operational losses caused by quasi-fiscal operations, expenditure payment arrears and unfunded pension obligations.

(i) Extent of central government monitoring of Autonomous Government Agencies and Public Enterprises

Active oversight of aggregate fiscal risk is limited. Some information on fiscal risk is presented with the Yellow Book, but this is not accompanied by analyses of fiscal risks in the medium term, and no consolidated report on fiscal risk is prepared. The extent to which contingent liabilities are monitored is not fully known. The Investment and Debt Management Office (IDM) prepares an annual report for senior management on contingent liabilities, at the request of the IMF, on the basis of a reporting template covering loan guarantees and direct and indirect contingent liabilities. It is confidential and not publicly available. The IDM informed the PEFA team that the document is available on request, but nevertheless did not provide it with a copy. The report apparently contains no assessment of the fiscal impact of contingent liabilities.

Monitoring of public private partnerships (PPPs), which are a growing area in Zambia and a potential source of unsustainable contingent liabilities, is limited. The MTEF 2013-2015 (Green Paper) and the 2013 Budget provides a list of PPPs, but this may not cover all of them; the majority of those listed are for roads. The management of PPPs is conducted under the National Programme on Implementation, which is under MoF responsibility, but located for operational purposes at the National Road Fund Agency (NRFA). Because of this, IDM does not include PPPs in its annual report on contingent liabilities. In his 2012 Budget Speech the Minister stressed the need to ensure that PPPs do not give rise to unsustainable contingent liabilities and warned against fraudulent schemes. Nonetheless, the fiscal impact of PPPs, a potentially major source of fiscal risk, is not analysed in any publicly available government document.

The 2006 Financial Regulations requires that statutory bodies, semi-autonomous agencies and state owned enterprises provide within 6 months of the end of every financial year audited financial statements to Parliament, copied to IDM. In practice this legal requirement is not met by all such entities. The IDM receives many audited financial statements, but not all organisations provide their annual financial statements. PAC maintains a list of those not complying and follows up in PAC meetings. For example, the PAC Report on the Auditor General's Report for 2010 noted a number of SOEs that have not met their legal reporting obligations and highlights Nitrogen Chemical of Zambia, which has not produced audited financial statements since 2004. A list of government guarantees is included in the annual Financial Reports prepared by MoF.

(ii) Extent of central government monitoring of sub-national governments' fiscal position

With central government having only limited liability for sub-national government budgets, its oversight is restricted to the relatively small amounts of transfers provided to Councils, which represent less than 1 percent of the total approved Budget. The budgets and actual expenditures of local councils are reflected in Yellow Books and Financial Reports only to the extent of the grants they receive from central government. Councils' own-source revenues and spending are not contained in either the Yellow Book or the Financial Reports. Councils submit quarterly and annual Performance Review Reports to MLGH on budget execution, which include information on Councils' own revenues and expenditures. Neither MLGH nor MoF prepares a consolidated fiscal report on sub-national governments. The Office of the Auditor General is mandated to audit local government finances and identifies issues in its annual report.

Nevertheless, as indicated under PI-8, local councils present potential fiscal risk to the central government by virtue of the loss of rental income resulting from the sale of council houses and also their inability to make full contributions to LASF, though the central government is paying much of these through the Restructuring Grant.

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-9: Oversight of aggregate fiscal risk from other public sector entities	**C**	**C**	**No change in performance. Fiscal risk is significant, but consolidated reports on fiscal risk are not produced.**
(i) Extent of central government monitoring of AGAs/PEs	*C*	*C*	Active oversight of aggregate fiscal risk is limited, and no consolidated report on fiscal risk is prepared. Statutory organisations, SOEs and semi-autonomous agencies are required by law to provide audited financial statements annually to Parliament with copies to IDM in MoF. Most, but not all, entities meet this obligation.
(ii) Extent of central government monitoring of SN governments' fiscal position	*C*	*C*	MLGH receives both budget and revenue performance reports from Councils, but does not prepare a consolidated fiscal report for local government as a whole.

PI-10: Public access to key fiscal information

This indicator assesses the extent to which information on the budget and its execution by the government is easily accessible to the general public or at least the relevant interest groups. Transparency requires that the Government make relevant information widely available in a comprehensive, understandable and timely fashion. The assessment is based on 2012.

Table 11 summarises the availability of the six elements of information stipulated under the PEFA methodology.

Table 11: Fiscal information available to the public

Elements of information for public access	Public Availability	Assessment
Annual budget documentation when submitted to the legislature	Yes	The Annual Estimates of Revenues and Expenditures (the Yellow Book) becomes a public document as soon as it is submitted to Parliament. It is available to purchase from the government printer. The Minister's Budget Address is published in full in the print media on/near the date of the address and is available on the relevant newspaper's website.
In-year budget execution reports within one month of their completion	No	Quarterly budget execution reports are posted on MoF's website later than one month of their completion. The MoF website is currently significantly behind in posting reports.
Year-end financial statements within 6 months of completed audit	Yes	These are available to purchase from the Government Printer as soon as the audited statements are submitted to Parliament, which is usually within 6 months of the completed audit. The summarised statements are also posted on MoF's website, also within 6 months of the completed audit (based on the 2011 audited statement).
External audit reports within 6 months of completed audit	Yes	The reports are available to purchase from the Government Printer once the OAG report is tabled in Parliament, which is usually within 6 months of their completion.
Contract awards (app. USD 100,000 equivalent) published at least quarterly	No	Some are, but not necessarily all.
Resources available to primary service unit at least annually	No	Not published or otherwise available to the public.

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-10: Public Access to key fiscal information	**A**	**B**	**Performance reduced. Timeliness in publishing reports has slipped somewhat, partly due to MoF not keeping its website up to date.** The public has timely access to 3 of the 6 specified types of information.

3.4 Policy based budgeting

The indicators in this group assess to what extent the central budget is prepared with due regard to government policy.

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

This indicator assesses the organisation, clarity and comprehensiveness of the annual budget preparation process.

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

A simple (comprising four deadlines) annual budget calendar exists, it is clear, and it is set out in the Budget Call Circular each year. Most MPSAs met by the assessment team considered that they had few problems with the budget calendar, in terms of the amount of time available for preparing budget submissions and discussing these with MoF, in part because, to MPSAs, the amounts do not appear change significantly year to year. Nonetheless, in practice, based on the most recent budgets (2012 and 2013), MPSAs have had less than four weeks from their receipt of the budget circular (containing the budget ceilings agreed in the Green Paper approved in August 2011 and September 2012, respectively for 2012 and 2013 budgets) to prepare their detailed budget submissions.

	Circulation of Budget Call Circular to MPSAs	Deadline for MPSAs to submit their detailed estimates to MoF
2012 Budget	12 August 2011	5 September 2011
2013 Budget	6 September 2012	14 September 2012
Source: MoF		

(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions

The Cabinet approves the Green Paper, containing MPSAs' spending ceilings, and it is issued in August. The ceilings are provided in the Call Circular, which is circulated to MPSAs immediately after Cabinet approval. Most MPSAs contacted by the assessment team indicated that they were satisfied with the clarity of the Budget Call circulars sent out, even if they thought the spending ceilings were too low (in practice, they realise that what they will receive will be little changed from the previous year). One MPSA considered that much time is wasted during the budget consultation process, as in the end the amounts received is not very different from the previous year.

(iii) Timely budget approval by the legislature or similarly mandated body

The amendment to the Constitution in 2009 changed the budget calendar. The Minister of Finance must submit the draft budget estimates no later than the second Friday of October and the budget must be approved by the end of the year. Approval before the end of the year means that budget execution of the approved budget can start right at the beginning of the year, thereby allowing MPSAs to plan for service delivery on a whole year horizon, instead of squeezing their planning into eight or nine months as previously. Parliament may now spend potentially up to 10 months reviewing the draft budget; previously, the only deadline was approval of the draft budget by the end of April, thereby allowing the possibility of the Minister submitting the budget at the last minute and thus precluding meaningful debate.

Following the Constitutional amendment, Parliament approved the 2011, 2012, and 2013 annual budgets in the relevant December before the beginning of the fiscal year.

On-going and planned activities: The Government is in the process of developing a planning and budgeting policy that will form the basis for stakeholder consultations. It is envisaged that the planning and budget legislation will be tabled in 2014. A Planning and Budgeting Layman's Draft has been prepared.

Indicator (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-11: Orderliness and participation in the annual budget process	**C+**	**B+**	**Performance has improved, mainly due to the improved budget calendar**
(i) Existence of, and adherence to, a fixed budget calendar	*C*	*C*	A simple annual budget calendar exists, it is clear and it is set out in the Budget Call Circular each year. For the most recent budgets (2012 and 2013), MPSAs have had less than four weeks from their receipt of the budget circular to prepare their detailed budget submissions.
(ii) Guidance on the preparation of budget submissions	*A*	*A*	The Call Circular includes ceilings which have been approved by Cabinet. The Call Circular is circulated to MPSAs immediately after this Cabinet approval.
(iii) timely budget approval by the legislature	*D*	*A*	The budget has been approved by the end of the fiscal year for the last three budgets (2011-2013 budgets).

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

This indicator considers the link between budgeting and policy priorities in the medium-term perspective and the extent to which costing of the implications of policy initiatives is integrated into the budget formulation process.

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

Forecasts for the coming three years are prepared each year on a rolling basis and are reflected in the Medium Term Fiscal Framework and the Medium Term Expenditure Framework (the Green Book). The forecasts are provided for the main economic and functional (COFOG) categories. However, the reasons for differences between multi-year estimates and subsequent MPSA ceilings are not clearly set out. MPSAs met by the team indicated that the second year of the MTEF only partially, if at all, provided the starting point for preparing next year's budget.

(ii) Scope and frequency of debt sustainability analysis

The most recent debt sustainability analysis (DSA) was carried out by MoF, in collaboration with MEFMI and UNCTAD, in January/February 2012 (with the report dated February 2012). The analysis covered both domestic and external debt. MoF has plans to prepare a DSA in 2013.

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

Costed strategies exist, with detailed costings of recurrent and capital expenditures, and these have been updated to be consistent with the new Sixth National Development Plan. The methodology underlying investments is not fully rigorous (e.g. recurrent costs implied by capital investments are not fully embedded in the methodology, though key ministries estimate and incorporate these costs).

(iv) Linkages between investment budgets and forward expenditure estimates

Proposed investments are based on sector strategies and recurrent costs implied by these investments are taken into consideration to some extent. In particular, the majority of investments in key sectors such as health and education are made on the basis of relevant sector strategies (based on the SNDP) and recurrent cost implications in accordance with sector allocations and are included in forward budget estimates for the sectors.

On-going and planned activities

- A policy paper is being prepared that will more solidly embed MTFF/MTEF into government policies.
- The MTFF is under further development, initially with help from the Netherlands and then from Germany through GIZ, using MS Access. MTFF should ideally be on a quarterly basis, but Central Statistical Office cannot yet do quarterly projections of GDP.
- A DSA is planned to be carried out in 2013.

Indicator (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting	**B**	**B**	**Performance is unchanged since the last assessment.**
(i) multi-year fiscal forecasts and functional allocations	*C*[29]	*C*	The medium term fiscal framework is set out in the Green Paper each year. Forecasts of fiscal aggregates are prepared for a three-year period on an annual rolling basis. The forecasts are provided for the main economic and functional (COFOG) categories. However, the reasons for differences between multi-year estimates and subsequent MPSA ceilings are not clearly set out.
(ii) scope and frequency of debt sustainability analysis	*B*	*B*	A debt sustainability analysis was prepared in February 2012, covering both external and domestic debt. The previous analysis was carried out in 2007. Thus, during the last three years, one DSA has been carried out.
(iii) existence of costed sector strategies	*A*	*A*	As per the last review, strategies for all sectors exist, with detailed costings of recurrent and capital expenditures and are outlined in the SNDP.
(iv) linkages between investment budgets and forward expenditure estimates	*B*	*B*	The majority of investments in sectors such as Health and Education are made on the basis of relevant sector strategies (based on the SNDP) and recurrent cost implications in accordance with sector allocations and are included in forward budget estimates for the sectors.

[29] Reflects original score.

3.5 Predictability and control in budget execution

This set of indicators reviews the predictability of funds for budget execution and the internal controls and measures in place to ensure that the budget is executed in an accountable manner. The set is divided into three sub-components: revenue administration, budget execution and cash/debt management, and internal control systems.

3.5.1 Revenue Administration

Background

The Zambia Revenue Authority (ZRA) was established on 1st April 1994 as a corporate body, under the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia enacted in 1993. Pursuant to this Act, the Authority is charged with the responsibility of collecting revenue on behalf of the Government of the Republic of Zambia under the supervision of the Minister of Finance.

ZRA's activities are guided by its three-year Corporate Plans, the latest of which covers 2011-2013. It has a Governing Board, to which the Commissioner General is accountable. Under the Commissioner General, there are two operational Commissioners for Customs Services and Domestic Taxes. Under the former are two Deputy Commissioners, a Director of Research and Planning, and the Director, Internal Audit. Under the latter are the Director, Large Taxpayer Office (LTO), the Director, Small and Medium Taxpayer Office (SMTO), and the Director, Design and Monitoring. An organogram is contained in the Annual Reports. A specialised Mining Tax Unit was established in 2011, with assistance from the Norwegian Tax Administration.

PI-13: Transparency of taxpayer obligations and liabilities

A comprehensive revenue administration system that consistently delivers tax revenue to support government operations is underpinned by an effective assessment of tax liability. A robust and transparent revenue administration enables taxpayers to know their obligations and liabilities in a timely and transparent manner and to challenge assessments of tax liability in an informed manner, thus facilitating compliance. The success of self-assessment depends in particular on taxpayers having a sound understanding of the tax law and the ease with which they can comply with their tax obligations.

This indicator thus assesses the level of clarity and comprehensiveness of major tax legislation and regulations; access of taxpayers to this information; and the existence and functioning of the tax appeals mechanism.

(i) Clarity and comprehensiveness of tax liabilities

Overall compliance with tax policy in Zambia is encouraged and facilitated through the existence of a wide range of tax law and administrative procedures that are comprehensive and clearly stated in various Acts which include: (i) the Zambia Revenue Authority Act Cap 321, 1993; (ii) the Income Tax Act (ITA) Cap 323, 1966, as amended several times (55) since, the last amendment being in 2011; (iii) the Value Added Tax Act cap 331, 1996, also amended several times since; (iv) the Property Transfer Act cap 340, 1984, also amended several times since; (v) the Medical Levy Act No. 6 of 2003; the National Payment Systems Act No. 1 of 2007; (vi) the Mines and Minerals Development Act No. 7 of 2008; and (vii) the Customs and Excise Act. The ZRA publishes a Practice Note for each and every amendment.[30] The tax laws are supported by Regulations, such as those supporting the Income Tax Act (ITA) and the VAT Act. New regulations are introduced from time to time through Statutory Instruments and are explained in Practice Notes.[31]

It could be argued that the frequent amendments to the tax laws and accompanying issues of Statutory Instruments and Practice Notes, though themselves clear, tend to reduce the transparency of the tax laws. This appears to be particularly so with regard to the continual changes to the schedules governing VAT exemptions and zero ratings.

Generally, as noted in the 2008 PEFA assessment, the tax legislation conveys limited discretionary powers for the tax administrators although a grey area still exists concerning valuation of imported used/second hand motor vehicles manufactured in 2000 and thereafter. In response to this issue, the ZRA developed a database in 2009, showing indicative values of used motor vehicles, and the database has been circulated to all customs posts, but nevertheless challenges in valuation remained. Therefore ZRA engaged the World Customs Organization (WCO) in 2010 to help resolve this matter; its work is still on-going.

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

Since the last assessment, ZRA has administratively reformed itself through movement towards a taxpayer structure from a tax type structure. Thus, under the Domestic Taxes Division fall the Large Taxpayer Office (LTO) and the Small and Medium Taxpayer Offices (SMTO), with branches in major towns; the Domestic Taxes Division was formed as the result of the merger of the Direct Taxes Division and the Value Added Taxes Division. The SMTO mainly deals with taxpayers who pay turnover and presumptive tax rather than VAT and income tax. As a result, tailor-made information on liabilities is now available to all taxpayers on all tax types.

Taxpayer access to information on the liabilities and administrative procedures by other means has continued to strengthen:

- The 2008 PEFA assessment describes the various types of taxpayer education: pamphlets, guides, practice notes, Taxpayers’ Charter, Budget Highlights explaining the main tax changes announced in the Budget (e.g. “2012 Budget, Overview of Tax Changes”), Customer Service Centres, newspapers (weekly Tax Chat column), radio, seminars, workshops, and presentations to various stakeholders such as business/professional associations, and these are still in place. Access has improved, due to ZRA’s establishing offices in all provinces and in all border areas.
- The ZRA website, established in 2002 and on which much taxpayer education material is located, is continuously being updated and expanded. Unlike in the mid-2000s when it was mainly available only to residents in major urban centres, it is now available over much of the country. The website also has tax calculators that enable taxpayers to compute their indicative PAYE and trade tax liabilities on their salaries

[30] For example: (i) Practice Note No. 1/2008 in connection with the amendments in 2008 to the Income Tax Act, the VAT Act and the Mines and Minerals Development Act; (ii) Practice Note No. 1/2009 in connection with the amendments in 2009 to the ITA, the VAT Act and the Property Transfer Tax Act; (iii) Practice Note No. 1/2010 in connection with the second amendments in 2009 to the ITA and VAT Act; (iv) Practice Note No. 1/2011 in connection with the amendments to the ITA, VAT Act and Property Transfer Tax Act in 2011; and (v) Practice Note No.1/2012 in connection with the amendments to the ITA, VAT Act and the Property Transfer Tax Act in 2011. These Notes also explain the accompanying Statutory Instruments that give effect to changed or new Regulations accompanying the amendments to the Acts.

[31] (i) Income Tax (Turnover Tax) Regulations, 2009, S.I. No. 47 of 2009; (ii) VAT (General Regulations, 2010), S.I. No. 88 of 2010; (iii)VAT (Zero Rating) Order, 2010, S.I. No. 89 of 2010; (iv) VAT (Zero Rating Order, 2011), S.I. No. 50 of 2011, repealing S.I. No. 89 of 2010 and the Second Schedule in the VAT Act; (v) VAT (Exemption) (Amendment) Order, 2011, S.I. No.132 of 2011, that amended the VAT (Exemption) Order of 2011, S.I. No. 49 of 2011 through amendment to the previously amended First Schedule of the VAT Act.

and imported used motor vehicles respectively; previously the calculators only covered imported used motor vehicles.

- Expansion in scope of Taxpayer Education Outreach Programmes to all provincial headquarters and major towns during 2012.
- A national Call Centre ('hotline'), which was opened in 2010 in Lusaka, became fully operational in 2011 and is now available on all networks, provides advice to taxpayers who call from anywhere in the country to inquire about their specific needs. The calls, however, are not yet toll-free due to budgetary constraints.
- Simplification of the tax registration process in 2011 through the use of consolidated tax registration forms and One-Stop-Shop services.
- A Tax Appreciation Day was inaugurated in 2008*;* a folder, which includes the main pamphlets/guides, is handed out to participants.
- A tax education programme for the mining sector was established in 2011, with the assistance of NORAD.
- Information on procedures for electronic payment of customs duties ('e-payment') was disseminated in 2010. In addition, a centralised cashiering system was developed in 2010, containing procedures on how to pay customs duties without having to go to border stations. The Real Time Gross Settlements (RTGS) system was introduced in 2009 to enable taxpayers to pay taxes through their banks. The system covers all tax types
- Trade Shows and the Taxpayer Education Outreach Programmes have increased in frequency (five held in 2011) due to more funding being provided by MoF;
- The Taxpayers' Charter was introduced to the public in 2008 to inform taxpayers of their rights and obligations and of the minimum standard of services that ZRA pledges to provide them.[32] The actual levels of service to taxpayers are verified by an independent policy think tank and published quarterly in national newspapers. The Annual Report for 2011 indicates that ZRA performed below standard for refund-related standards, though better than in 2010, and above standard for tax registration and advisory services, the Authority achieving better performance in 2011 than in 2010. Exceptional performance was recorded on Tax Clearance Certificates.

Thus, the information provided to taxpayers and its tailoring has improved since the last PEFA assessment. Nevertheless, the frequent issuance of Practice Notes and Statutory Instruments for some taxes, mentioned above, is likely to cloud the clarity of taxpayer obligations, particularly in terms of which are the most up-to-date nature obligations, and thereby potentially affect the user-friendliness of the information. At the same time, limited resources restrict the geographical reach of some activities, such as providing toll-free access to the Call Centre, and there is limited access to the internet outside of Lusaka.

(iii) Existence and functioning of a tax appeals mechanism

Both internal and external complaints and appeals mechanisms for aggrieved taxpayers exist that enable them to contest decisions made by ZRA. Internally, taxpayers have the right to contest decisions made by officers all the way up to the Commissioner General, who is the institution's Chief Executive Officer. Upon exhausting the internal appeals mechanism, taxpayers are entitled to appeal to the autonomous Revenue Appeals Tribunal (RAT).

[32] For example, ZRA undertakes to provide VAT refunds within 30 days and Tax Clearance Certificates within two days.

Taxpayers are not usually allowed to appeal to RAT if they have not exhausted the internal appeals/complaints mechanism, but in practice a number of aggrieved taxpayers have appealed straight to RAT or even straight to the High Court, thereby bypassing both the internal appeals mechanism and RAT. Most appeals concern Customs and Excise, VAT and Direct Taxes.

The seven members of RAT (which was originally established by law in 1998) are appointed from both the public and private sector (two from the latter).[33] Limited capacities and resources have constrained its effectiveness, as also noted in the 2008 assessment. The RAT operates only in Lusaka and taxpayers who want to access its services have to travel to Lusaka (as noted in the 2008 PEFA assessment). The RAT had only four members in 2010, and was unable to sit at all for a few months during 2011, following the expiry of the term of office of the members and delays in replacing them. As a result, according to RAT, the number of appeals/complaints submitted to them fell in 2010.[34] The appointment of a Vice Chairperson is still awaited.

The larger the taxpayer, the greater the likelihood of complaints/appeals. Mining companies are regular complainants (‘one of the highest incidents of tax disputes brought before the Tribunal’ according to RAT’s progress report for 2009-11), as are importers of motor vehicles, though this is partly a product of the lack of transparency in the valuation system concerning old, used imported vehicles. Mining companies tend to raise issues concerning customs duties, VAT and windfall taxes, particularly in the context of ‘development agreements’ that they signed with GRZ.[35]

Small taxpayers might be expected to appeal presumptive tax assessments, which imply discretionary judgements on the part of ZRA, but in practice the number of appeals is limited as the assessment process is reasonably simple and transparent.

The RAT appears to be transparent in its proceedings and operations. It has a brochure explaining the RAT operations. For each year since 1999 it has released information on the names of each appellant, the type of tax for which appeals have been lodged, the judgement of the Tribunal (ZRA won or taxpayer won) and whether appeals have been taken further to the high court (most appeals do not go this far). This information is included in RAT’s periodic Progress Reports, the latest of which covers 2009-11, which are submitted to MoF. The Progress Report for 2009-11 also includes budget submissions, including workplans, the monthly cash plans (revenues and expenditures by category) for the period under review and associated quarterly profiles, and audited annual financial statements.

Issues concerning taxation of the mining industry

Copper mining has always played a large role in the Zambian economy, copper exports comprising over three-quarters of total exports, but tax revenues generated by the mining industry comprise only a small proportion of GRZ revenues, leading to suspicions that the

[33] According to paragraph 4 of the RAT Act, the seven members of the Tribunal should consist of three legal practitioners recommended by the Judicial Service Commission, two qualified accountants, certified by the Zambia Institute of Certified Accountants, and two persons from the business community.

[34] The appeal statistics for 2010 are: (i) Rulings delivered. 3; (ii) Appeals received in 2010, 6; (iii) Total number of active appeals, 17. The total number of active appeals in 2011 was 8. Reductions in the number of appeals processed through RAT each year is not necessarily a good gauge of effectiveness, as strengthening tax administration may result in a fall in the number of complaints submitted to RAT.

[35] Time-bound (10-15 years) Development Agreements signed between mining companies (originally state-owned, but substantially privatised during the 1980s and 90s) and GRZ in the early 2000s provided specific tax incentives for these companies in the context of low copper prices. A sharp rise in copper prices in the mid 2000s prompted the then President to introduce a ‘windfall’ tax on turnover in 2007 through an amendment to the Income Tax Act. The mining companies protested this on the basis that: (i) it broke the terms of the Development Agreements, which include Stability Provisions; and (ii) the large fall in global copper prices in 2008-09 in the wake of the global financial crisis. The new President who came to power in 2009 reversed the windfall tax.

mining industry is under-taxed. Specific legislation governs mineral development: the Mines and Minerals Development Act and the Mineral Royalty Tax Act, but, except for royalties, mining sector taxation is handled under the various Tax Acts. Under-taxation can occur through: (i) tax rates (including royalty rates) being low and/or exemptions/allowances/deductions being high, compared to those in other mineral resource-rich countries; and/or (ii) tax evasion or avoidance, for example, through transfer pricing practices. In the case of (i), capital expenditures can apparently be written off in the year they are incurred and royalty payments can be deducted from income. The abolition of the windfall profits tax in 2009, only one year after its imposition, is also benefitting the mining industry during the era of high copper prices that commenced in 2010.

The Extractive Industries Transparency Initiative (EITI), established several years ago under the auspices of governments, donor agencies and mining companies, has been assessing the extent to which the Zambian mining industry meets the EITI transparency criteria. According to two assessment reports prepared to date, covering 2008 and 2009, compliance is improving. In September 2012, the EITI International Secretariat confirmed to the Zambian government that the minimum conditions for transparency had been met, resulting in Zambia becoming the 15th country out of a total of 35 in the world that had attained EITI-compliance status.

The Norwegian Government's aid agency (NORAD) has been providing technical assistance to the LTO in ZRA, including support for the tax audit function, with particular focus on the mining industry, including on whether it engages in transfer pricing practices.

Global Witness and the Centre for Trade Policy and Development are two of the NGOs which, *inter alia*, examine tax transparency and accountability issues in the mining sector. The former looks at, *inter alia*, the transparency of mining and hydrocarbons activities in a number of resource-dependent countries.

On-going and planned activities

- The RAT secured funding in the 2012 Budget to travel round the country in order to address complaints/appeals, including the holding of one or two court circuits held in the Copperbelt.
- Preparation of a Tax Administration Bill is underway. The purpose is to increase the clarity of tax administration through harmonisation of the tax administration provisions contained in the various tax laws under one document.
- Plans are underway to enable taxpayers to have real-time access to their tax accounts through: (i) the replacement of the current ITAS with a more robust system; and (ii) the replacement of ASYCUDA ++ with a web-based version (ASYCUDA World).
- A Commission of Inquiry was appointed by H.E. the President in 2011 to review the operations of ZRA. The Inquiry recommended, *inter alia*: (i) establishment of more ZRA offices; (ii) review of the zero-rated goods and services and VAT refunds schemes under the VAT Act; (iii) establishment of a Mining Tax Unit in the Copperbelt and NW Provinces; and (iv) an analysis of the tax debt stock.
- GRZ accepted the Commission's findings and ordered that, *inter alia:* (i) the contracts for two service providers for the operation and maintenance of scanners be terminated; (ii) the border concessions should be cancelled and GRZ should then immediately assume responsibility for infrastructure development at border posts with immediate effect; similarly the contract awarded for the management of border infrastructure at

Chirundu should be cancelled, with ZRA taking over the management; (iii) the tax deferment that was awarded to a beverage company should be revoked and the company made to pay outstanding arrears; and (iv) an urgent review of ZRA's collection strategy and organisational structure be made.

- Institutional capacity strengthening is continuing, with the support of NORAD.

Indicator (M2)	Score 2008 PEFA	Score 2011 PEFA	Assessment
PI-13: Transparency of taxpayer obligations and liabilities	**B**	**B**	**Progress is being made, though not by enough as yet to increase the ratings.**
(i) Clarity and comprehensiveness of tax liabilities	*B*	*B*	The tax law and regulations have limited discretionary powers, are comprehensive and clearly spelt out in separate Acts, as noted in the text and the 2008 assessment. The frequent amendments (sometimes even twice a year) to the Income Tax Act, the VAT Act and the Property Transfer Act and the accompanying frequent issues of Practice Notes and Statutory Instruments, though clear in themselves and necessary in some cases for the purposes of clarification, appear to detract from transparency in other cases (e.g. changing list of VAT exemptions and zero ratings every year).
(ii) Taxpayer access to information on tax liabilities and administrative procedures	*B*	*B* ▲	Comprehensive, tailor-made information on the major tax liabilities and procedures for revenue items such as Income Tax (direct taxes), VAT (indirect taxes), and Customs/Excise is available to the public both on the ZRA website and through a series of Practice Notes, PAYE tax computation tables, and the VAT Liability Guide. Taxpayer education seminars (including Trade Shows and the Taxpayer Education Outreach Programmes) are conducted quarterly by the Customer Service Offices, in addition to presentations provided to various stakeholders on request. In addition, the Customer Services Office prepares weekly tax chats in the newspaper, and produces a series of regular radio and TV discussions. Nevertheless, the frequent issuance of Practice Notes and Statutory Instruments for some tax types is likely to reduce the user-friendliness of the information, and accessibility is potentially affected by the relatively limited geographical reach of some activities, and the relatively limited access to the internet outside of Lusaka.
(iii) Existence and functioning of a tax appeals mechanism	*B*	*B*	A clear and transparent tax appeal mechanism exists and functions through the internal ZRA appeals system and the external (independent) Revenue Appeals Tribunal (RAT), which is found only in Lusaka. The RAT operates in a transparent way, but its effectiveness is constrained by the Tribunal not operating at full strength in terms of its members, and its location only in Lusaka, thus potentially limiting access to those based a significant distance away from Lusaka.

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

The interaction between identification and registration of liable taxpayers and the correct assessment of their due tax liability determines the effectiveness in tax assessment. Effectiveness is further facilitated by a progressive penalty regime that deters would-be offenders and encourages taxpayers to comply with their procedural obligations of registering as taxpayers and declaring their tax liabilities that are due. In addition, the existence of a risk based audit selection process that identifies taxpayers and taxable activities that involve the largest potential risk of revenue loss and non-compliance compliments the effectiveness of tax assessments.

(i) Controls in the taxpayer registration system

Tax registration is now simplified through use of a consolidated tax registration process and a single (unique) Taxpayer Identification Number (TPIN) covering all tax types. The single TPIN came into effect in 2009 through the merger of the two TPINs for domestic and trade taxes. The ZRA Authority captures its taxpayers in two separate database systems based on the TPIN. For income and domestic consumption taxes, the Integrated Tax Administration System (ITAS) is used (developed by the Bull Company, based in South Africa), while for trade taxes and import consumption taxes ASYCUDA ++ is used. The two systems are not linked.

The TPIN for Zambian citizens and companies are generated using their national registration card numbers issued by the Passport and Citizenship department, and company registration numbers issued by the Patents and Companies Registration Agency (PACRA). Foreign nationals and institutions registered by the Registrar of Societies have mandatory registration fields that link them to their passport numbers and society registration numbers.

Companies can only open accounts with financial institutions if they have TPINs. In order to compel taxpayers to register as taxpayers it has been mandatory since 2010 for all importers to have a TPIN, which can be obtained at the time of declaring their imported goods. Furthermore the requirement that registered taxpayers transact only with businesses that have tax clearance certificates has also ensured that businesses register with the Authority. Self-employed professionals can pose a challenge in terms of bringing them into the tax net.

During 2011, 38,374 TPINs were issued, up from 22,908 the year before, the reason for the increase being the decision to make it mandatory for all importers to use TPINs when declaring their imports.

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

Penalties for non-compliance exist for all tax types but are not considered punitive for some offences. For example the penalty on late submission of a VAT payment return attracts a penalty of K180, 000 for each day the return is late or a flat percentage rate of 0.5 percent of the amount due, whichever is higher. On the other hand, a late return under the income tax attracts a penalty of 2000 penalty fee units (currently K 180 per fee unit) for companies and 1000 penalty fee units for individuals per month or part thereof that the return is not submitted.[36] In general, however, the penalty regime is fairly progressive in terms of the

[36] A fee unit provides for indexation of penalties against inflation.

offence committed. Any change in the penalty regime needs to be approved by the legislature (as the penalties are stipulated in the tax laws), which in some instances has been reluctant to increase the penalties.

For customs, ZRA uses a graduated penalty system to ensure that penalties are applied uniformly, consistently and in an equitable manner for offences of equivalent weight, the overall objective being to mould client attitudes towards self-regulation. For example, in terms of non-or-under declaration of imports, the penalty for a first offence is levied at 5 percent of the duty paid value, a second offence is levied at 25 percent and further offences attract penalties of 100-300 percent or forfeiture of goods or prosecution. Importers who are not compliant in paying taxes must pay an Advance Income Tax, which is levied at 6 percent of the cost-insurance-freight (c.i.f.) value for duty purposes.

Recent developments (2010) have been the introduction of penalties for late registration and the backdating of penalties to the period from which they start to apply. Under the VAT law, a supplier is required to register within one month of reaching the VAT threshold; failure to register attracts a penalty of 10,000 penalty fee units for each standard tax period that the supplier remains unregistered. Furthermore, as from 2009, all sales made during the period the supplier remains unregistered from the date they were eligible to register are taken to be inclusive of VAT and interest for late payment. As regards Income Tax, penalties for under declaration, failure to submit returns and fraudulent returns are also provided for under the ITA.

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

In 2012, the ZRA re-established an Investigations Department that investigates all classes of tax fraud. This had been disbanded in December 2008 due to the perception that investigation officers would be more effective if they were re-located to the operating divisions (Domestic Taxes and Customs Services). This turned out not to be the case; thus, the Investigations Department was re-established.

The Domestic Taxes and Customs Services Divisions have, respectively, a Design and Monitoring Department and an Audit and Business Risk Unit that have the responsibility for developing standardised audit guidelines and annual work plans for use across their offices. Audit procedures and risk-based assessment criteria were streamlined in 2011, with training support from NORAD. The main focus of audit staff is large taxpayers; 37 audit staff work in the LTO. Audits are now being conducted across all tax types, and specialised audits covering taxation of natural resources and financial sector are now being conducted. At the time of the 2008 PEFA assessment, audits covered the major tax types and big clients and specialised audits were not being conducted. The 2011 Annual Report of ZRA elaborates (available in hard copy at ZRA HQ and on ZRA's website as of 4th July, 2012).

Table 14 in ZRA's Annual Report for 2011 provides information on the number of audits and tax collected during 2011 by LTO, MTO and STO in terms of Number of Audits, tax collected by tax type, tax deferred and penalties. During 2011, 10,360 audits were conducted (more than 50 percent in terms of MTO), K 598 billion was collected, K 1,360 billion was deferred, and penalties amounting to K 370 billion were levied.

Transparency International (TI), interviewed by the assessment team, looks at issues of tax avoidance/evasion. Two particular issues are: (i) avoidance of customs duties on imported cars, the trend appears to be worsening rather than improving; and (ii) smuggling, facilitated in part by not all border posts having ZRA offices.

On-going and planned activities

- With assistance from IMF, ZRA is planning to replace ITAS with a more robust system developed by TATA (India) while ASYCUDA ++ is being replaced by a web-based version (ASYCUDA World), enabling greater public accessibility.
- The ZRA is planning to introduce a *'High Net Worth Individuals Taxation Scheme'* in order to bring more people into the tax net.
- The Tax Administration Bill being drafted would rationalise the penalty system in order to provide consistency between the different tax types.

Indicator (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-14: Effectiveness of measures for taxpayer registration and tax assessment	**B**	**B**	**Performance has improved due to progress under dimensions (i) and (iii) – greater registration controls and tax audit coverage.**
(i) Controls in taxpayer registration system	*C*	*C*	ZRA captures taxpayers in two separate database systems, ITAS for income and domestic consumption taxes and ASYCUDA ++ for trade taxes. However, these two database systems are not linked at present. There are linkages to other government registration systems and financial sector regulations, including the national registration card number issued by GRZ and company registration number issued by PACRA. Use of a TPIN is mandatory for importers and for companies wishing to open bank accounts. In addition, the requirement for tax clearance certificates to be issued before businesses can transact provides incentives for unregistered businesses to register for tax.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	*B*	*B*	Penalties for non-compliance exist for all tax types but are not considered to be punitive for some offences (e.g. late submission of returns).
(iii) Planning and monitoring of tax audit and fraud investigation programs	*B*	*A*	A fully-fledged Investigations Department is now in place to investigate all classes of tax fraud and smuggling. In addition, audit units exist in the two operating divisions (domestic taxes and customs services). Following a pilot in 2010 and roll out in 2011, audits now cover all tax types and include specialised audits in the natural resources and financial sectors. Audits are incorporated in annual work plans based on clear risk-based assessment criteria; audit procedures and risk-based assessment criteria were streamlined in 2011. Thus, tax audits and fraud investigations are managed and reported on according to comprehensive and documented audit plans; these audits and investigations are based on clear risk assessment criteria for all major taxes (all of which apply self-assessment).

PI-15: Effectiveness in collection of tax payments

The accumulation of tax arrears generally undermines the ability of Government to provide public services for its citizens. The efficient collection of tax arrears lends credibility to the tax assessment process and reflects equal and fair treatment of all taxpayers. This indicator assesses the effectiveness of ZRA in: (i) controlling the level of tax arrears and collecting them when they occur; (ii) transferring tax collections to MoF on a timely basis; and (iii) accounting for tax receipts in relation to tax assessments.

(i) Collection ratio for gross tax arrears

The stock of tax arrears at the end of the year and annual arrears collections are reported in the ZRA annual reports, as summarised under Table 12.

Table 12: Stock of tax arrears and tax collections

K billions	2009	2010	2011
Corporate income tax arrears			
Arrears at beginning of year	4,079	2002	1,209
New arrears during the year	0	0	1,581
Arrears collected/written off during the year	2,077	793	0
Arrears at end of the year (1)	*2,002*	*1,209*	*2,790*
Personal income tax arrears			
Arrears at beginning of year	94	24	140
New arrears during the year	0	116	0
Arrears collected/written off during the year	70	0	129
Arrears at end of the year (2)	*24*	*140*	*11*
VAT arrears			
Arrears at beginning of year	1,299	1168	2,108
New arrears during the year	0	940	0
Arrears collected/written off during the year	131	0	58
Arrears at end of the year (3)	*1168*	*2,108*	*2,050*
Trade tax arrears at end of year (4)	*NA*	*261*	*138*
Mineral royalty tax arrears			
Arrears at beginning of year	NA	0.7	53.3
New arrears during the year	NA	NA	NA
Arrears collected/written off during the year	NA	NA	NA
Arrears at end of the year (5)	*0.7*	*53.3*	*NA*
Total tax arrears at end of year = 1+2+3+4+5	**3,195**	**3,771**	**4,989**
Total tax revenue collection	**9,660**	**13,538**	**18,004**
Tax arrears as % of tax revenue collection	**33.1**	**27.9**	**27.7**
Total tax arrears (excl. mineral tax arrears) collected/written off during the year (6)[1]	**2,278**	**793**	**187**
Annual collection (6) as % of stock of tax arrears at end of previous year (excluding mineral royalty tax arrears)[2]	**NA**	**24.8**	**5.0**
Annual collection as % of of stock of tax arrears at end of previous year (including mineral royalty tax arrears)[2]	**NA**	**NA**	**NA**

1. Excluding those data not available
2. These do not include data on the annual collection of mineral royalty tax arrears.

This analysis shows that tax arrears are significant, particularly for domestic taxes, averaging about 30 percent of tax collections over 2009-2011. Total arrears collected or written off during 2011, the most recently completed fiscal year, were a small percentage of the overall stock of tax arrears outstanding at the end of the previous year. Nonetheless, one hundred percent of mining company tax arrears was collected in 2011; the payment of arrears totalling K 1,753 billion comprised windfall tax arrears (K 445 billion), CIT (K 701 billion); and mineral royalties (K 607 billion).

However, comprehensive data on the annual collection of arrears are not available (particularly for mineral royalty tax arrears[37]), so it is not possible to accurately estimate the percentage of the tax arrears outstanding at the end of the previous year that was collected during the current year.

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

In Zambia, about 90 percent of tax collections are transferred daily through the RTGS and e-payments system (described under PI-13) directly to MoF's Consolidated Fund account (Control 99) held in Bank of Zambia (BoZ), which has a branch in Ndola. It is mandatory by law (the Payments Systems Act) that all payments above K100 million are paid through the RTGS. Payments made into mirror accounts held by MoF in commercial bank accounts in remote/rural areas can take up to 48 hours to reach the Control 99 account in BoZ, but this represents a significant improvement from the 4 days it used to take prior to 2010, resulting from technical and administrative innovations in the banking system. A complete reconciliation of tax payments and records of receipts into Control 99 account takes place monthly between ZRA and MoF.

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

Ensuring that all monies collected by the tax revenue administration are properly accounted for, banked and promptly paid to the MoF is essential for ensuring that the collected revenue is available to it for spending. This is possible through ensuring that aggregate reporting on tax assessments, collections, arrears and transfers to MoF take place regularly and that the transfers to MoF can be reconciled with the assessments. In the case of Zambia, complete reconciliation on the status of each taxpayer is possible for the large taxpayers, who account for over 90 percent of all taxes collected; this reconciliation takes place once a month within 14 days of the end of each month. For other groups of taxpayers, such reconciliations take place at least annually within two months of the end year.

An issue that ZRA is currently addressing arises when taxpayers do not indicate the tax type when making payments, so that collections by tax type can be recorded. The error rate is low for VAT, Turnover Tax, and Mineral Royalty, but is higher for other taxes. The ZRA has continued with a data cleaning reconciliation exercise to ensure that all payments are allocated to the correct tax type, period and nature of payment (i.e. provisional tax, assessed tax, remaining unpaid balance).

[37] This is an important omission, as the stock of such arrears has been growing from a level of 0 in 2011.

On-going and planned activities

- Planned replacement of the ITAS by a more robust tax administration package. This would facilitate the age profiling of tax arrears (and thus the estimation of tax debt collection rates) and the full reconciliation between tax assessments and tax collections.
- Introduction of scanners in the examinations of imports and exports at Chirundu and Livingstone points of entry.

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-15: Effectiveness in collection of tax payments	**C+**	**NR**	**Performance is strengthening under dimension (ii)**
(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	*C*[38]	*NR*	Comprehensive data on the annual collection of arrears are not available (particularly for mineral royalty tax arrears39), so it is not possible to accurately estimate the percentage of the tax arrears outstanding at the end of the previous year that was collected during the current year.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	*B*	*B*	The majority of tax collections are transferred to MoF's bank account in BoZ on a daily basis through RTGS/e-payments. Payments made in remote/rural areas can take up to 48 hours to reach the Consolidated Fund account of MoF held in BoZ's account. This represents an improvement over the situation prior to 2011, when it took up to 4 days, the improvement being due to technical and institutional innovations in the banking system. The criteria for a higher score are not met.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	*B*	*B*	Complete accounts reconciliations takes place monthly for over 90 percent of taxes which are accounted for by the taxpayers in the Large Taxpayer Group within 14 days of the end of the month. Complete reconciliation for the other groups of taxpayers takes place at least annually within two months of the end year. The rating of this dimension has been made on a weighted-average basis. The planned introduction of a more robust ITAS should enable such reconciliation.

3.5.2 Budget Execution and Cash/Debt Management

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

Effective execution of the budget in accordance with work plans requires that spending ministries and agencies receive reliable information on the availability of funds within which they can commit expenditure for recurrent and capital inputs.

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[38] The original 2008 score of C has been reinstated, following confirmation by the PEFA Secretariat.

[39] This is an important omission, as the stock of such arrears has been growing from a level of 0 in 2011.

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

All MPSAs are required to prepare detailed annual or general funding profiles (cash flow forecasts) by month for the following financial year immediately after budget approval but before the start of the new financial year. These profiles are analysed by MoF in order to match them with projected resources and are intended to provide the basis for the establishment of quarterly allocation ceilings. During the year, MPSAs update these forecasts each quarter on the basis of actual revenues and expenditures to date (cash inflows and outflows) and their coming monthly cash flow requirements. MPSAs submit these forecasts to MoF for decisions on monthly cash releases. For MPSAs on IFMIS, quarterly ceilings are loaded in the system to facilitate profiling and subsequent funding to the institutions. Treasury releases funds monthly to MPSAs; these releases are supposed to be based on the quarterly funding profiles. However, stakeholder interviews suggest that MPSAs consider that MoF does not communicate with them sufficiently with regard to adjusting the quarterly profiles submitted to it during the year.

Table 13 shows indicative deadlines for preparing and adjusting funding profiles. Data are not kept on the actual dates of submission.

Table 13: Annual deadlines for preparing and adjusting funding profiles[1]

Activity	Date Required	MoF Feedback
Annual Profile (January to December)	20th December	
First Quarter Profile Adjustments	20th December	28th December
Second Quarter Profile Adjustments	15th March	24th March
Third Quarter Profile Adjustments	15th June	24th June
Fourth Quarter Profile Adjustments	15th September	24th September

1. Based on fiscal year 2011.

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

Predictability of MPSAs' funding availability is intended to be facilitated by effective cash flow planning, monitoring and management by the MoF, based on reliable forecasts of inflows and outflows which are linked to the budget implementation and commitment plans for individual MPSAs. Uncertainty of the timing of inflows of domestic revenues and donor resources, combined with possible unexpected reallocations of budget allocations between MPSAs during the year, means that MoF regulates budget execution on a quarterly basis, and MPSAs have a maximum of a three-month planning horizon for making expenditure commitments.

MPSAs are only able to enter into spending commitments once they have received their expenditure ceilings for the quarter from MoF. In practice, based on the recent timing of the dissemination of information on MPSA expenditure ceilings, MPSAs receive reliable such information no more than one or two months in advance. Specifically, MPSAs received their first quarter 2013 expenditure ceilings on 14 January 2013, and their second quarter 2013 expenditure ceilings between the 5th and the 9th of April 2013.

As indicated above, MPSAs are provided monthly cash releases within their quarterly funding profiles. MoF may delay monthly cash releases from time to time (and does, according to some MPSAs met) potentially disrupting smooth budget execution by MPSAs. While in theory these delays do not prevent them entering into quarterly commitments, interviews with stakeholders suggest that, due to issues of reliability of the information, in practice some MPSAs tend to wait to receive notice of their monthly cash releases before entering into commitments.

At the same time, many MPSAs interviewed are of the view that MoF does not appear to pay attention to the MPSA-submitted funding profiles and that the established quarterly profiles and subsequent monthly ceilings are not consistent with those provided by MPSAs; if widespread, this practice potentially undermines reliability and affects programme implementation of MPSAs.

MPSAs entering into contracts with an implementation period of longer than 3 months cannot have their commitment period extended. The MoF is afraid that allowing longer time horizons would lead MPSAs to ‘front load’ their commitments, in a bid to “lock in” future cash releases.

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

Formal adjustments to budget allocations to MPSAs decided above the level of management of MPSAs (excluding reallocations within MPSAs that require approval of MoF) are reflected in Supplementary Estimates submitted to the National Assembly for approval through a Supplementary Appropriations Act; adjustments may be through reallocations between votes or increases in spending financed by additional funding provided to MPSAs by MoF. In some cases more than one Supplementary Estimate budget is submitted each year.

The number of adjustments made in it is large (i.e. hundreds), and the reallocation process is not very transparent, with only very brief explanations provided. Though Part 10 Section 116 of the Constitution allows a Supplementary Appropriations Bill, which should be enacted before the money is spent, in practice, the money tends to be spent first (through advances) and in a non-transparent manner. The Public Accounts Committee (PAC) and the Clerk to the National Assembly informed the assessment team that this practice of rubber-stamping was frowned upon by MPs.

While in most cases the total amount of changes to MPSAs budgets is small relative to their originally approved budgets, the budget adjustments are large in aggregate, as reflected in Table 14, and they show an increasing trend.

Table 14: Supplementary Estimates submitted to Parliament

Financial Year ended December	Approved estimate (K bn)	Supplementary Estimate/Savings declared (K bn)	Actual Expenditure (K bn)	Budget Increase as a % of Original Budget
2008	13,761.4	1,898.4	12,34.8	13%
2009	15,279.0	955.8	16,234.8	6%
2010	16,717.8	3,401.7	17,252.1	20%
2011	20,537.4	8,135.1	22,995.7	40%

Source: MoF Financial Report for the year ended December 2008, 2009, 2010, and 2011

On-going and planned strengthening activities

Under the Draft Constitution which is under discussion, it will be a requirement that the appropriated amount shall not exceed an amount prescribed by an Act of Parliament as a percentage of the budget for MPSAs as approved by the National Assembly for that financial year.

Further, the amendment brought about by the Constitution of Zambia (Amendment) Act, 2009 which changed the budget cycle envisages further legislative changes. These planned changes are expected to result in budgeting and planning legislation which shall provide for matters that relate to the annual Budget and to medium and long-term development plans. The assessment team was informed by Parliament that a draft Budgeting and Planning Bill had been prepared.

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-16: Predictability in the availability of funds for commitment of expenditures	**D+**	**C+**	**Improvement in performance due to greater reliability of information on resources available for spending under dimension (ii).**
(i) Extent to which cash flows are forecast and monitored	*B*	*B*	MPSAs prepare detailed annual funding profiles (cash flow forecasts) by month for the coming financial year, which provide the basis for the establishment of quarterly allocation ceilings. The forecasts are updated quarterly on the basis of actual revenues and expenditures (cash inflows and outflows), and these forecasts are analysed by MoF officials.
(ii) Reliability and horizon of periodic in-year information to MPSAs on ceilings for expenditure	*D*	*C*	MPSAs are only able to enter into spending commitments once they have received their quarterly spending ceilings from MoF. MoF may delay monthly cash releases from time to time (and does, according to some MPSAs met) to the inconvenience of MPSAs. While in theory this does not prevent them entering into the commitments, interviews with stakeholders suggest that, due to issues of reliability of the information, in practice some MPSAs tend to wait to receive notice of their monthly cash releases before entering into commitments. Based on the recent timing of the dissemination of information on MPSA expenditure ceilings, MPSAs receive reliable information no more than one or two months in advance.
(iii) Frequency and transparency of adjustments to budget allocations which are decided above the level of management of MPSAs	*C*	*C*	Each year a number of Supplementary Estimates are submitted to the National Assembly and incorporated into a Supplementary Appropriations Bill. The number of adjustments reflected in these supplementary budgets is large, and the reasons for the reallocations are not always transparent. Moreover, in many cases, the money has already been spent. Though the reallocation process appears non-transparent, in most cases the total amount of changes to MPSAs budgets is small relative to their originally approved budgets.

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

Efficient management of debt and debt guarantees is an essential component of fiscal management. Poor management of debt and debt guarantees can create unnecessarily high debt service costs. With regard to efficient cash management, an important requirement for avoiding unnecessary borrowing and interest costs is that balances in all government-held bank accounts be identified and consolidated (including those for extra-budgetary funds and government controlled donor-funded project accounts).

(i) Quality of Debt Recording and Management

The Investment and Debt Management Office (IDM) in MoF is responsible for the management of both internal and external debt. External debt transactions are recorded using

UNIDO's Debt Management and Financial Accountability System (DMFAS). All new loans and debt service payments are recorded regularly and the database is updated quarterly. Internal debt records are maintained by the Bank of Zambia (BoZ). The IDM does not currently keep records of domestic debt in DMFAS, but BoZ has complete and up-to-date records for all domestic debt, including bridging loans, and these are reconciled daily. However, IDM is unable to reliably record all external loan disbursements within a three-month time lag. Neither it, nor the Economic Management Department (EMD), which also participates in the disbursement process and liaises directly with Co-operating Partners (CPs), is informed of effective disbursements made by creditors, except in the case of budget support. The IDM reconciles external debt semi-annually.

With regard to external debt reporting, Zambia's international debt reporting through the World Bank Debt Reporting System (DRS) has had slippages due to dependence on a few back office staff. IDM does not currently produce a debt statistics bulletin which covers all the basic risk measures of the Government's debt portfolio.

(ii) Extent of consolidation of the government's cash balances

The Office of the Accountant General has daily knowledge of the balances on its accounts and the balances of line ministries held in Bank of Zambia, but has no access to dis-aggregated information on the balances held by Provincial Administration and district offices of line ministries in commercial banks and on the balances held by donor projects and local authorities in commercial banks. The number of line ministry bank accounts held in commercial banks is in the thousands, as service delivery units such as schools and hospitals also hold bank accounts. Parastatal bodies also hold separate bank accounts with commercial banks and as such are not consolidated with those of Government. The reconciliation of bank balances with Bank of Zambia takes place daily, while that with balances in commercial banks is done monthly; timely reconciliation facilitates consolidation. Bank of Zambia accounts for about 85 percent of balances held by GRZ, while commercial banks account for only 15 percent. The reconciliation of cash balances for GRZ accounts held at BoZ (which accounts for around 85% of total balances) is done on a daily basis, whilst those held with commercial banks are done monthly. However, the system used does not allow consolidation of all bank balances.

The number of GRZ-held bank accounts has fallen considerably in recent years (as also noted in the 2008 PEFA assessment) through closing dormant accounts and the opening of single accounts in BoZ for paying out salaries and the grants to provincial administrations, rather than through a multitude of MPSA bank accounts held in commercial banks. This system has contributed to a reduction in amounts held at commercial banks and reduced the turnaround for receipt of salaries by civil servants from an average of 15 days to 2 days. Although all the line ministries in Lusaka hold accounts at BoZ, MoF does not yet have the authority to transfer surplus (relative to payments needs of MPSAs) balances from one MPSA's bank account to another on a daily basis in the interests of efficient liquidity management.

(iii) Systems for contracting loans and issuance of guarantees

The Loans and Guarantees (Authorization) Act Cap 366 of the Laws of Zambia is the primary legislation on debt management in Zambia. This Act authorises the Minister responsible for Finance to contract loans and issue guarantees on behalf of the Republic from external and domestic sources. The Act provides for the raising of loans, the establishment of sinking funds, issuance of guarantees and indemnities and the granting of loans by or on behalf of the

Government. Borrowing can be in the form of bonds, stocks, Treasury bills or agreements in writing.

The criteria for contracting loans and issuing loan guarantees are contained in the External Debt Policy and Management Strategy as approved by Cabinet. This forms part of the macro-fiscal framework (as outlined in the Green Paper), which is tabled each year before Parliament during the presentation of the Budget Estimates. Parliament does not currently actively exercise any oversight on the loans that the Government is planning to contract.

Thus, in practice, loans and guarantees are authorised by MoF in line with relevant legislation and within the government's overall fiscal targets and criteria as set out in the government fiscal policy documents, including the Minister's annual Budget Statement and the Green Paper.

Progress since 2008 PEFA assessment

The progress relates to the rationalisation of the system for payment of salaries and grants by opening only one account for salaries and another for grants at BoZ. This measure has significantly reduced the balances held at commercial banks. All donor-supported projects with a presence in Lusaka and Ndola, where BoZ offices exist, are now required to open holding accounts at Bank of Zambia.

Planned and on-going activities

- Government is in the process of restructuring IDM based on functional lines into Front, Middle and Back office, as opposed to by product lines.
- A Cash Management Unit is being established in MoF.
- A draft Public Debt Management Procedures Manual has been prepared and is awaiting approval by Government.
- With the assistance of US Treasury, Government is in the process of establishing a Treasury Department as well as developing a Treasury Single Account system. It is also in the process of piloting Internet Banking, which will then be rolled out later to all MPSAs. These reforms are in line with the Public Financial Management Reform Strategy.
- Co-operating Partners are in the process of moving their bank accounts from commercial banks to BoZ.

Indicator (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-17: Recording and management of cash balances, debt and guarantees	**C+**	**C+**	**Progress is being made but not by enough to change the rating**.
(i) Quality of debt data recording and reporting	*C*	*C*	Domestic and external debt records are complete, updated and, for external debt, reconciled semi-annually. For domestic debt, records are captured and reconciled daily by the Bank of Zambia. The quality of debt data is considered to be reasonable although there have been recent slippages in the quality of external debt reporting. IDM does not currently produce a debt statistics bulletin on debt stocks and debt service.
(ii) Extent of consolidation of the government's cash balances	*C*	*C*	The reconciliation of cash balances for GRZ accounts held at BoZ (which accounts for around 85% of total balances) is done on a daily basis, whilst those held with commercial banks are done monthly. However, the system used does not allow consolidation of all bank balances.
(iii) Systems for contracting loans and issuance of guarantees	*B*	*B*	The Loans and Guarantees Authorisation Act gives authority to contract loans and guarantees to MoF. Loans and guarantees are authorised by MoF within the government's overall fiscal targets and criteria as set out in the government fiscal policy documents, including the Minister's annual Budget Statement and the Green Paper.

3.5.3 Internal control systems

PI-18: Effectiveness of payroll controls

As a major component of expenditure, effective control of the payroll is an important indicator of sound financial management.

Background

A significant development since the last PEFA assessment has been the decentralisation, still on-going, of the Payroll Management and Establishment Control (PMEC) system to all provinces and several line ministries. For those MPSAs on PMEC, this has shortened the time taken to update the payroll in response to changes in the personnel database. Only authorised end-users are permitted to use the terminals, which are linked to the PMEC centre in Lusaka by optic fibre cable and wireless. On-line networking will be possible in the near future.

The 2008 PEFA assessment mentioned that 2000 employees were still on the old legacy system. They are now captured under the PMEC system. It must be noted however that the PMEC system is not the only payroll for the Government. Institutions such as defence forces (Zambia Army, Zambia Air Force, and Zambia National Service), the Intelligence, National Assembly, Electoral Commission and Human Rights Commission have separate payrolls, which is not yet part of PMEC. The number of employees covered by PMEC is currently about 162,000, a substantial rise from the 132,000 total number of employees at the time of the last assessment, mainly due to recruitment in the education and health sectors. It has not been possible to determine the proportion of total employees covered by the PMEC system because the numbers for the defence forces and intelligence can not be disclosed due to the security nature of the institutions. However, the numbers for the other payrolls were also not availed to the assessment team.

PMEC auditors are currently being trained in the use of Audit Command Language (ACL), which will improve audit efficiency by enabling staff to interrogate the database and payroll in order to detect irregular patterns.

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

As indicated in the 2008 assessment, the automated PMEC has remained fully operational, directly linking personnel data and payroll data to ensure consistency and monthly reconciliation.

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

Timeliness has improved due to the decentralisation of payroll, so that changes can be entered into PMEC at provincial administrations rather than in Lusaka. A person who is recruited or promoted this month should appear on the payroll next month. Managerial action is required to remove people from the payroll, and delays do happen beyond the control of PMEC. The process of replacing a staff member who has left (through resignation or termination) would detect instances of that person still being on the payroll. Personnel records can be locked if information has come to light that a staff member has resigned or been terminated but the official action has not yet taken place to remove the member from the payroll. Audits will also check for such instances (dimension (iv)).

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

Controls continue to be stringent. Only authorised (by Controlling Officer) personnel have access to PMEC, both at central and Provincial Administration level. Authority to change records and payroll is restricted and results in an audit trail

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

Internal auditors at PMEC scrutinise the proposed next month's payroll, *both ex ante (*i.e., pre-audit) and *ex post*. Internal auditors in MPSAs check the payroll every month. PMEC's internal auditors periodically conduct head counts (e.g. teachers in schools in 2009). The OAG conducted a comprehensive payroll audit in 2009.

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-18: Effectiveness of payroll controls	**D+**	**C+**	**Performance has improved due to: (i) reduction in the time for changes in personnel records to be reflected in the payroll (due to the on-going decentralisation of PMEC to some line ministries and provincial administration, a process which has not yet been completed); and (ii) increased frequency and scope of payroll audits.**
(i) Degree of integration and reconciliation between personnel records and payroll data	*A*	*A*	PMEC is an integrated payroll and personnel database programme. This integration ensures data consistency and facilitates monthly reconciliations.
(ii) Timeliness of changes to personnel records and the payroll	*D*	*C*	Changes to personnel records and payroll are updated monthly. Based on stakeholder interviews, there can reportedly be delays of around three months for the updating of some personnel records, including the records for deceased employees, for those on suspension and for retired employees; these can cause frequent retrospective adjustments to be made. These changes can affect a not-insignificant proportion of overall changes.
(iii) Internal controls of changes to personnel records and the payroll	*A*	*A*	Authority to change records and payroll is restricted and results in an audit trail.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	*B*	*A*	Payroll is now effectively being audited every year through the efforts of internal auditors in PMEC, MPSAs and the work of OAG, which conducted a payroll-specific audit in 2009.

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

A well-functioning procurement ensures that money is used efficiently and effectively.

Background

The Public Procurement Act No, 12 of 2008 (PPA) and Public Procurement Regulations (PPR), 2011 comprise the legal and regulatory framework governing public procurement. The objective is to ensure that the procurement system is transparent and provides value for money. In line with Regulation 8 of the PPR, all procurement for goods, works, and non-consulting services above K500 million must be undertaken through open bidding, while procurements above K300 million for consultancy services must be undertaken using open selection methods. The PPA prescribes open bidding and open selection as the default methods of procurement.

The Zambian Public Procurement Authority (ZPPA) is not yet solely a regulatory body as it is involved in procurement operations through its Central Tender Committee (CTC), which approves procurements above a stipulated threshold of the MPSA. Bids below the threshold of the MPSAs are evaluated by Evaluation Committees and approved by the Procurement Committees of MPSAs.

The PPA was amended in 2011 to provide for the extension of the transition period, a period which allowed ZPPA to be involved in the procurement process through the CTC. The transition period was provided in order to build procurement capacity in MPSAs' procurement units. Procurement Committees and Evaluation Committees have been established in many MPSAs, but building capacity to the levels sufficient to meet the minimum standards specified in the legislation has been a challenge. The Zambian Institute for Purchasing and Supplies has been the main institution helping to build capacity. The transition period was supposed to end in December 2010, but was extended and was completed in December 2012.

Specific issues not covered by this assessment include the role of ZPPA in reviewing all bidding documents and the role of the Ministry of Justice in reviewing contracts. Apparently ZPPA has to review all bidding documents, regardless of the value of the proposed procurement. The time involved in these processes apparently slows down the procurement process to a considerable degree.

In many countries, the more detailed OECD-DAC procurement assessment methodology, established in 2006, has been used to assess procurement systems. One such assessment was conducted for Zambia in 2007. With the legal framework for public procurement having changed with the establishment of the ZPPA, the time would seem opportune for another such assessment to be carried (now re-named as MAPS – Methodology for Assessing Procurement Systems).

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

The PPA and PPR, 2011 comprise the legal and regulatory framework governing public procurement. Part VIII of the PPA provides for Arbitration whereby a supplier who is aggrieved with a decision made by a procuring entity may appeal against the decision to the Authority. The PPA does not provide for an independent administrative procurement review process for handling procurement complaints prior to signing the contract. Considerations are being made to have this section amended through Parliament so as to be in line with best international best practice.

Table 15 explains the legal and regulatory framework for procurement in terms of six minimum requirements, and whether these are met.

Table 15: Legal and regulatory framework for procurement

Minimum Requirements (M2)	Meet requirements? (Yes/No)	Explanation
(i) be organized hierarchically and precedence is clearly established;	Yes	As set out in PPA and PPR
(ii) be freely and easily accessible to the public through appropriate means;	Yes	Act and Regulations are available on ZPPA website or purchased from Government Printer
(iii) apply to all procurement undertaken using government funds;	Yes	Section 3 of the Public Procurement Act (2008)
(iv) make open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified;	Yes	Part IV of the PPA (2008)
(v) provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints;	Yes	Gov't procurement plans: PPR 26(4) Bidding opportunities: PPR 26(4) Contract awards: PPR 129 Data on resolution of procurement complaints: PPR 129 It is noted that, in practice, public access is limited to bidding opportunities. Some of the major individual procurement entities publish procurement plans and contract awards.
(vi) provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	No	It is noted that there are plans to amend the Act to include an independent appeals tribunal – this is included in the new PFM strategy.

(ii) Use of competitive procurement methods

The ZPPA does not have a data recording system containing information on numbers and values of procurement by procurement method. The only reporting requirement for MPSAs is to send the minutes of their Committee meetings to it. These Committees have to approve use of restrictive tendering methods for proposed procurements, and the PPA specifies the instances where restrictive tendering is justified.[40] The ZPPA can check from the minutes whether the use of restricted tendering methods has been sufficiently justified in terms of the provisions of the PPA. The ZPPA agreed to provide examples of minutes to the assessment team, but these had not been received by the time the field work had ended.

The ZPPA can also check whether MPSAs are adhering to the legal and regulatory framework through conducting inspections and assessments (the latter are more detailed). The ZPPA said it would provide some sample reports to the assessment team, but these had not been provided by the end of the field work. Such reports are not available on the PPA website.[41] Organisations outside GRZ contacted by the assessment team indicated that such inspections/assessments tend to be of limited value.

The MPSAs interviewed by the assessment team maintained that open tendering methods are generally used. The Ministry of Works and Supplies indicated that about 20 percent of procurements with values above the minimum threshold use restricted tendering methods. The Ministry of Health indicated that it uses restricted tendering methods for items such as insulin.

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

Key procurement information consists of government procurement plans, bidding opportunities, contract awards and data on resolution of procurement complaints. However, of these, only bidding opportunities are systematically made available to the public. The PPA requires MPSAs to prepare procurement plans (Section 42 (7)). About 50 percent of MPSAs do prepare such plans, but do not publicise them. The quality of these plans is variable; further capacity building is needed in this area. Bidding opportunities are advertised in the media and on notice boards. MPSAs may publicise contract awards, but the costs of doing so are a deterrent. Data on resolution of procurement complaints are not publicised; it is not a requirement of the legal framework.

(iv) Existence of an independent administrative procurement complaints system.

This dimension is scored according to whether a body reviewing complaints on procurement satisfies the following requirements:

(i) Comprised of experienced professionals, including members drawn from outside government.

(ii) Not involved in procurement transactions or in the process leading to contract award decisions;

(iii) Does not charge fees that prohibit access by concerned parties;

(iv) Follows processes for submission and resolution of complaints that are clearly defined and publicly available;

(v) Exercises the authority to suspend the procurement process;

[40] For example, supplies only available from one source (e.g. motor vehicles that meet GRZ-specified criteria may only be available from one company, limited number of suppliers, emergency situations). The Ministry of Defence is exempt from some of the provisions of the PPA. All potential suppliers have to be registered on a suppliers list.

[41] In contrast, the website of the Kenyan Public Procurement Oversight Authority contains procurement assessment reports. These assessments are really procurement audits, following a standardized methodology, the use of which allows a Compliant Index to be derived. In many cases, the entities assessed do not meet the minimum score (60 percent) for compliance. A typical finding is the unjustified use of restrictive tendering methods.

(vi) Issues decisions within the timeframe specified in the rules/regulations; and

(vii) Issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).

An independent procurement complaints review body that meets these criteria has yet to be set up.

Indicator (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-19: Competition, value for money and controls in procurement	**C+**	**D+**	**Results not directly comparable between 2008 and 2012 due to the PEFA criteria being revised in January 2011**.
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	*NA*	*B*	The legal framework meets 5 of the 6 listed requirements
(ii) Use of competitive procurement methods	*NA*[42]	*D*	Reliable data were not available on the percentage of the value of contracts awarded by methods other than open competition which were justified in accordance with legal requirements.
(iii) Public access to complete, reliable and timely procurement information	*NA*	*D*	Only bidding opportunities are systematically made available to the public.
(iv) Existence of an independent administrative procurement complaints system	*NA*	*D*	An independent administrative procurement complaints mechanism has yet to be set up.

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

Controls concerning payroll, debt and revenue management have been discussed under PIs 14-15, and PIs 17-18.

(i) Effectiveness of expenditure commitment controls

The Government currently operates two accounting systems, namely the Commitment Control and Financial Management System (CC/FMS), which is the legacy system, and the IFMIS which has been implemented using SAP software. To date, 28 out of 52 MPSAs are on IFMIS. In the case of CC/FMS, decisions to enter into expenditure commitments (local purchase orders [LPOs], and contracts) are approved manually on the basis of coverage by the approved budget, and then entered into the system for eventual payment. In the case of IFMIS, the proposed commitment is entered into IFMIS for approval, which is only provided if it covered by the approved budget and is completely funded through the quarterly budget allocation systems (see PI-16). In the case of a multi-month contract, only the first three months of certificates can be entered (and then the second three months), but, on the basis of

[42] The scoring criteria for PI-19(ii) were changed in January 2011. In the original PEFA criteria (pre-January 2011), the criteria required assessors to verify that there was evidence that the use of less competitive methods was justified in line with regulatory requirements. However, the revised PEFA criteria (January 2011) require assessors to determine the *value* of such contracts awarded by less-than-competitive methods that are in line with regulatory requirements. Thus, the two scoring criteria are not comparable.

the quarterly profiles submitted by MPSAs, MoF takes note of the later expected payments under the project management module. Thus, the IFMIS configuration cannot capture commitments that have not been funded.

However, despite commitment control procedures being in place, internal audit reports on verification of arrears for the fourth quarters ended 2008, 2009, 2010 and 2011 continue to show an upward trend. As indicated under PI-4, many of these cannot be controlled under the CC/FMS, such as personal emoluments arrears and utility payments arrears. However, some of these can be controlled through CC/FMS, indicating that compliance with, and enforcement of Financial Regulations has been deficient. This is more likely under the CC/FMS legacy system.

(ii) Comprehensiveness, relevance and understanding of other internal controls and processes

Internal controls and processes for non-salary expenditures are set out in a number of documents, including: the Public Finance Act of 2004, Financial Regulations of 2006, National Payment System Act of 2007, Public Procurement Act of 2008, Public Procurement Regulations of 2011, Public Stores Regulations of 1969 and the Accounting and Financial Procedures Manual (Accounting) Guide of 2008. The rules are quite comprehensive and relevant and stipulate how internal control must be applied. These controls are enhanced by follow-up cabinet and treasury circulars (TCs) issued from time to time to address specific weaknesses in internal controls.[43] The Auditor General's report continues to highlight serious breaches in controls by a number of MPSAs which may indicate a lack of understanding.

The extent of availability and the continued applicability of the Cabinet and Treasury Circulars that are issued are not clear. In particular, the understanding of these circulars may not be comprehensive, as availability of the documentation to staff, particularly new staff, is not systematic. Whilst familiarity of all of the supplementary circulars (as distinct from the set of rules and procedures themselves) may not be complete, this does not undermine general familiarity with, and understanding of, the rules and procedures. A systematic approach to the filing of circulars appears to be lacking, and heavy reliance is placed on accumulated knowledge and experience rather than a well-documented system that is widely available.

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

Compliance with rules and procedures appears to be deficient, partly perhaps because of insufficient understanding of them. The annual reports of the Auditor General on the Accounts of MPSAs for 2008, 2009, 2010 and 2011 (those reviewed by the assessment team) make numerous references to non-compliance with rules/procedures in the areas referred to above. The team also reviewed a sample of internal audit reports which also highlighted lack of compliance to rules for processing transactions.

Although the number of audit queries have been going down during the period under review (based on the Treasury Minute), the amounts involved have been increasing, as shown in Table 16, which is an extract from the Auditor General's Reports for 2008-2011. The Auditor-General's report highlights the major irregularities that were found during the audit. The Audit Report for 2011 showed a slight decrease in the value of irregularities, of about

[43] For example, the Secretary to the Treasury issues annual guidelines outlining the procedures for closing GRZ accounts at the end of the financial year and banking and accounting arrangements for the following year.

7%, over that in 2010. However, over the period from 2008-2011 period, irregularities appear to have nearly trebled (from K 410 billion to K 1.2 trillion). The areas of non-compliance tend to repeat themselves each year.

PAC considers that the induction process for new officers could be improved, as this would promote better compliance with laws and regulations.

Table 16: Major irregularities noted in Auditor General's Reports for 2008-2011

Findings	**2008**	**2009**	**2010**	**2011**
	K	K	K	K
Misappropriation of Funds	70,036,000	3,918,288,485	1,096,257,658	1,080,362,947
Unaccounted for Revenue	1,056,685,439	1,388,790,328	1,761,709,547	531,875,899,746
Delayed Banking	1,945,956,268	9,126,634,591	13,511,603,892	1,890,404,564
Unaccounted for Funds	792,546,311	1,126,821,656	3,823,553,675	5,054,209,802
Misapplication of Funds	7,865,627,697	95,238,162,121	220,628,818,731	23,685,562,199
Unretired Imprest	21,456,008,511	25,789,847,602	77,161,637,221	33,136,711,477
Unvouched Expenditure	28,337,559,092	89,325,590,024	74,793,881,735	77,014,932,341
Unaccounted for Stores	20,805,216,887	32,676,447,022	43,921,118,882	22,079,935,144
Irregular Payments	27,119,540,802	3,908,756,274	10,289,923,002	4,233,314,411
Non recoveries of Salary Advance and Loans	5,326,899,909	14,777,712,130	10,098,900,307	3,479,476,312
Failure to Follow Tender Procedures	2,627,420,322	1,189,103,954	2,540,559,305	4,674,317,060
Undelivered Materials	894,335,504	345,542,984	649,210,800	2,104,187,120
Non Submission of Expenditure Returns	35,181,100,829	11,938,931,973	3,090,848,292	27,083,333,334
Unauthorised Expenditure	4,916,418,128	13,684,411,726	4,808,969,418	456,303,212
Wasteful Expenditure	569,523,537	10,042,083,206	7,362,829,990	2,609,341,457
Overpayments	1,635,102,213	125,228,272	131,561,606	6,000,000
Excess Expenditure	249,973,998,666	87,272,446,830	814,219,094,814	456,014,072,942
Total	**410,573,976,115**	**401,874,799,178**	**1,289,890,478,875**	**1,196,478,364,068**

Source: Reports of the Auditor-General for 2008, 2009, 2010 and 2011

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-20: Effectiveness of internal controls for non-salary expenditure	**C+**	**C+**	**No overall change in performance. Compliance with commitment and other controls continues to be a concern.**
(i) Effectiveness of expenditure commitment controls	*C*	*C*	Expenditure commitment controls exist and are effective when complied with, but they do not comprehensively cover all expenditures, and there is evidence in the Auditor General's reports of the lack of enforcement and/or the occasional violation of such rules.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures	*B*	*B*	Rules and procedures are documented in the Finance Act of 2004, Financial Regulations of 2006, National Payment System Act of 2007, Public Procurement Act of 2008, Public Procurement Regulations of 2011, Public Stores Regulations of 1969 and the Accounting and Financial Procedures Manual (Accounting) Guide including successive Circulars, including Treasury Circulars issued by MoF from time to time. Collectively, these rules comprise a comprehensive set of control procedures, although there appears to be some degree of inefficiency in the procedures. Whilst familiarity of all of the supplementary circulars (as distinct from the set of rules and procedures themselves) may not be complete, this does not undermine general familiarity with, and understanding of, the rules and procedures.
(iii) Degree of compliance with rules for processing and recording transactions	*C*	*C*	Compliance with rules and procedures appears to be deficient, as specifically noted by the Auditor General's audit reports on MPSAs' accounts. However, the evidence does not indicate that non-compliance occurs on a routine and widespread basis.

PI-21: Effectiveness of internal audit

Regular and adequate feedback to management is required on the performance of the internal control systems, through an internal audit function (or equivalent systems monitoring function).

(i) Coverage and quality of the internal audit function

A number of developments have occurred since the 2008 PEFA assessment that have enhanced (and are continuing to enhance) the quality of the internal audit function:

1) The capacity and capabilities of the internal function have strengthened: Skill levels and years of experience appear to have increased, as indicated by a staff list provided to the assessment team; for each auditor, the list shows current position, full qualifications obtained (e.g. ACCA), year qualification obtained, and length of service in government and in the current position.

2) Use of Computer Assisted Auditing Techniques (CAATs) started in 2010. Expenditure transactions are exported from SAP to CAAT and an interrogation software package ('Audit Command Language') is then used to identify abnormal patterns.

3) The Audit Information System, contained within IFMIS allows queries to be made more efficiently.

4) The system for recording the time spent on each audit activity has been computerised, using the Audit Management module contained in IFMIS. Computerisation facilitates more efficient planning of audit activities. The system is still manual for MPSAs that are not yet hooked up to IFMIS.

The Controller of Internal Audit (CoIA) considers that reducing understaffing is necessary for further increasing the quality of audit. The establishment size is 226, taking into account auditors in MPSAs outside MoF. The actual number of staff as of October 2011 was 141, with shortfalls at both central and provincial administration level (as confirmed to the assessment team during its visit to two provincial administrations). Shortfalls are partly due to competition from the private sector, which can provide stronger remuneration packages. Given the greater emphasis being placed on value for money (VFM) audits, the CoIA considers that more people with VFM experience need to be hired; this kind of auditing requires more than accounting qualifications (e.g. determining whether a road has been efficiently constructed requires some technical knowledge about road construction).

The CoIA also considers that the Internal Audit Units in MPSAs should be transformed into Directorates and that the staff currently occupying the rank of Principal Internal Auditors in these units should be elevated to Director level, consistent with the proposed creation of Directorates of Finance. A Cabinet Memo has been prepared to address this issue (as well as the understaffing issue).

Coverage of audit: The internal audit function covers most but not all MPSAs. The staff list indicates that 35 MPSAs are covered out of 53 heads, representing approximately two-thirds of MPSAs. In terms of total expenditure, the percentage coverage is much higher, as the key ministries are covered. Audits also cover parastatals to some extent.

Extent of systems audit: Pre-audits (examination of transactions before the payments cycle is completed) are still being conducted, but to a diminishing extent as IFMIS expands its coverage (now covering 28 MPSAs, including two provincial administrations); the use of IFMIS renders obsolete the need for internal auditors to do pre-audits, as these are embedded in the system. However, problems being experienced with IFMIS are delaying further roll out and so pre-audits are likely to continue for a while; the Ministry of Transport, Works and Supplies, and Communications in particular, indicated this. IFMIS has yet to be rolled out at Provincial Administration level (except of Eastern and North-West Provinces where IFMIS is in place), and thus the extent of pre-auditing is probably larger than at central level, though the internal auditors met by the assessment team during its visits to two provinces indicated that they perform systems audit to some extent. Audits of parastatals are only at system level.

Systems audits focus on what are perceived as high-risk areas, though a formal risk management framework is only now being developed. High-risk areas appear to cover most areas: revenue collection, procurement, payroll, construction (in terms of whether contractors complied with specifications, for example, road thickness), imprests and use of government property. The focus may vary between sectors, with the IA function in the Ministry of Education, for example, looking at grants to high schools and the fee collection systems of these schools. The approach is top-down at systems level and then, if weaknesses are detected, to drill down to substantive testing at transactions level.

The CoIA provided the assessment team with some examples of audit reports. These appeared to be well-written and of high technical standard. The reports indicate a significant degree of non-compliance with various laws, regulations and procedures, and in some cases, misuse and diversion of public funds, as discussed under PI-20.

Compliance with International Standards for the Professional Practices in Internal Audit (ISPPIA), as issued by the Institute of Internal Auditors (IIA)*:* The CoIA considers it follows these standards, particularly in connection with the standards concerning documentation of evidence and maintenance of working papers (IIA standard 2020). However, CoIA has not institutionalised a system for tracking the extent to which ISPPIA standards are being met. It intends to develop such a system, which would facilitate peer review of the quality of IA in GRZ.

(ii) Frequency and distribution of reports

Audit plans are prepared for each year. Reports are not prepared according to a fixed schedule, partly because funding during the year is not always predictable, as indicated in the Minutes of the 2011 Internal Audit Conference which took place in Lusaka during 7-12 March 2011. Nonetheless, reports are issued regularly for most audited entities, and the reports are submitted to the audited entities, audit committees, MoF and the OAG. For example, the internal auditors in Ministry of Education prepared 30 reports during 2011, most of these at provincial level. Those in Ministry of Health prepared 20 reports.

(iii) Extent of management response to internal audit findings

The CoIA indicated that management response to IA findings is not satisfactory, with perhaps only about 30 percent of recommendations being implemented. Issues constraining implementation are:

- High turnover of Controlling Officers of MPSAs, so that they do not have enough time to implement recommendations; this issue was recently raised by the Public Accounts Committee (PAC);
- Conflicting accountabilities; Controlling Officers (CO) are appointed by the Secretary to the Treasury (ST), but they have already been appointed at Permanent Secretary level by H.E. the President, the result being that COs do not feel obliged to report the progress of implementing CoIA recommendations to the Secretary of the Treasury (ST);
- Insufficient funds for checking whether CoIA recommendations were being implemented at provincial administration/district level, particularly in distant localities, a particular problem for big ministries such as the Ministry of Transport, Works and Supplies, and Communications.
- Audit Committees (ACs) not providing sufficient support for the implementation of recommendations, partly because they only sit infrequently. With the exception of the Controlling Officer, ACs are manned mainly by outsiders, including two from the private sector. On paper, the situation has improved since the 2008 PEFA assessment, as most line ministries now have ACs, against only 15 in the last assessment. An Audit Committee Handbook has been prepared to assist the ACs in their work. All this comes to nought if the ACs do not sit. For example, the AC for the Ministry of Transport, Works and Supplies, and Communications was formed three years ago, but did not meet for the first time until 2011 and only met twice during that year. The ACs for the Ministries of Education and Health, on the other hand, appear to have been quite effective in inducing the CO to organise the implementation of CoIA recommendations.

On-going and planned activities

- *Re-drafting of the Internal Audit Manual*, originally produced in 2003. The main reasons for the re-draft are: (i) to reflect the revision of the Public Finance Act of 2004 and the Financial Regulations of 2004; (ii) the increasingly computerised environment for PFM through the introduction of IFMIS and the Payroll Management and Expenditure Control System (PMEC), which implies that less time is needed for pre-audit activities and more time on systems audit, VFM audits and forensic audits. The re-draft, originally prepared in January 2011, has still not been officially approved.
- *Preparation of a formal risk management framework.* A grading system for audit findings will be developed in order to determine the degree of risk. This will assist management in prioritising risk management interventions. The Concept Paper prepared by CoIA was approved by Cabinet, and the process of implementation commenced in December 2012.
- *Preparation of a system for monitoring the extent to which ISPPIA are being met.* Work on this has not yet started. Adoption of the ISPPIA is due to commence in July 2013.
- The CoIA is receiving TA from GIZ focussing on change management processes.

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-21: Effectiveness of internal audit	**C +**	**C+**	**Overall performance is unchanged.** Whilst the quality of internal audit has improved, its effectiveness continues to be constrained by limited follow-up by MPSAs.
(i) Coverage and quality of the internal audit function	*B*	*B*[44]	IA covers the majority of central government entities, generally meets professional standards and is focused on systemic issues at least an estimated 50 percent of the time. The quality of internal audit is increasing through capacity strengthening and greater experience.
(ii) Frequency and distribution of reports	*B*	*B*	While reports are not prepared according to a fixed schedule, they are nonetheless issued regularly for most audited entities. The reports are submitted to the audited entities, audit committees, MoF and the OAG.
(iii) Extent of management response to internal audit findings	*C*	*C*	Action on recommendations in audit reports is taken by Controlling Officers on major issues but with delays. The CoIA estimates implementation to be about 30 percent on average; the extent of implementation tends to be higher in line ministries compared to deconcentrated agencies, e.g. Lusaka Provincial Administration. Overall, the team believes the evidence suggests that many managers take a fair degree of action on major issues.

[44] Rating reflects clarification from the PEFA Secretariat.

3.6 Accounting, recording and reporting

PI-22: Timeliness and regularity of accounts reconciliation

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.

(i) Regularity of bank reconciliations The 2006 Financial Regulations (FR) and supporting Treasury Circulars stipulate that commercial banks submit bank account balances and statements to MPSAs by the 5^{th} working day of the following month (FR No. 137(1)), and that MPSAs submit bank reconciliation statements by the 15^{th} day (FR 138).

The bank reconciliation exercise is being simplified through Government's continuing to reduce the number of bank accounts held in commercial banks, as indicated under PI-17. With the simplification of its bank account structure, Government is now able to reconcile bank accounts held at both BoZ and commercial banks by the 15^{th} of the following month. The status reports on bank reconciliation statements received by the Office of the Accountant General for the end of 2008, 2009, 2010 and 2011 showed a high compliance level with the FR.

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

Suspense accounts can be defined as any expenditure or revenue that cannot for the time being be charged against an expenditure item. They include imprests (standing, special and accountable), advances and transfers. Special and accountable imprests in most cases relate to travel advances, and these are supposed to be cleared within 48 hours of return from the trip to which the advance relates, but some of the advances outstanding go back months and in a few cases years. Most suspense accounts are cleared annually. Most of the balances still outstanding at the end of each financial year are cleared within the next two months.

Unaccounted for imprests still continue to pose a big challenge and the end-year stock continued to rise during 2008-10 (2008, K 21 billion; 2009, K26 billion; and 2010, K77 billion), as indicated in the 2010 Auditor General's Report. At the end of the financial year, the delay in clearing imprests has an adverse effect upon the final accounts as expenditure not posted to the year to which it relates is carried forward to the following financial year while the cash advance has been made in the year just closed. The policy of the new government is to change the management and administration of imprests.

Progress since 2008 PEFA assessment

The cash management module in the IFMIS was operationalised, facilitating timely bank reconciliation.

On-going and planned activities:

Government is in the process of introducing new regulations in the management of imprests, resulting in the clearance of outstanding balances.

The introduction of electronic banking, where MPSAs connect with their commercial banks to view bank accounts and statements, is also said to be easing reconciliation.

Indicator (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-22: Timeliness and regularity of accounts reconciliation	**B**	**B**	**No change in performance.**
(i) Regularity of bank reconciliations	*A*	*A*	Bank reconciliations are completed every month for all central government bank accounts by the middle of the following month.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	*C*	*C*	Reconciliation and clearance of suspense accounts and advances take place at least annually, within two months of the end of the year; nonetheless, a not insignificant number of accounts still have uncleared balances brought forward.

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

Problems can arise in front-line service delivery units in obtaining resources that were intended for their use. The indicator covers primary education and health care service delivery units that are under the responsibility of GRZ.

No Public Expenditure Tracking Survey (PETS) has been carried out for Health and Education since 2007. The reason given by the respective Ministries of Health and Education is that they had been advised by the World Bank, funders of the previous PETS, that it would not add value because of the routine monitoring and reporting systems currently in place. In addition to monthly budget execution reports, these include inspection visits that are written up in verification reports and submitted to respective parent ministries and provincial administrations.

The Ministry of Education publishes information on the resources available to the provinces for basic schools in its Annual Progress Report, but does not provide a breakdown by primary schools. This information can be obtained, however, upon request from the District Education Management Team, which monitors and prepares reports on resources received at basic schools, including those received in-kind. The capacity to provide this data varies across districts, however. Generally the process is one of monthly monitoring of budget execution supplemented by periodic inspection that resources have been received. Some districts report both to the provincial administration and the parent ministry. This means that whilst the information is available for most of the country, it does not necessarily cover all of it.

The Ministry of Health broadly follows the same process as for the Ministry of Education in terms of monitoring the resources available for primary health units, the information being available on request from the District Health Management Team. The major tools for data collection are the Health Information Management System and the Financial Administration and Management System. Collecting such information is an integral part of the monitoring of the Health Sector Strategic Plan in order to assess whether it has achieved its objectives.

As part of its routine annual audits, the Office of the Auditor General also checks whether service delivery units receive the resources they are supposed to receive. Schools and health care centres have their bank accounts, thus facilitating tracking. Any diversion of funds detected would be notified to the relevant service delivery unit and District Education

Management/Health Management Team and would be noted in audit reports if the corrective actions recommended by OAG are not implemented.

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-23: Availability of information on resources received by service delivery units	**B**	**B**	**No change in performance**. Regular monthly budget execution reports are supplemented by inspection visits that are recorded in verification reports undertaken by Health and Education District Management teams. The information is provided in each sector's annual reports. This provides a reasonably reliable means of determining resources received by primary schools and health units across most of the country, including those received in-kind. This is reflected in the consensus between donors and health and education ministries that further PETS would not add value to existing arrangements. The OAG also checks for possible diversion of funds.

PI-24: Quality and timeliness of in year budget reports[45]

The ability to "bring in" the budget requires timely and regular information on actual budget performance to be available to MoF and to Cabinet, in order to monitor performance and if necessary to identify new actions to get the budget back on track, and to line ministries for managing the affairs for which they are accountable. The indicator relates to the preparation and issuance of comprehensive budget execution reports for government's internal use, i.e. reports which provide an overview of execution in order to take management decisions on a well-informed basis.[46]

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

Expenditures are captured at the payment stage, but not all commitments (e.g. MPSAs using CC/FMS) are captured. The classification of budget data allows direct comparison to the original budget, following the administrative and programme/activity classification (i.e. Statement C of the Financial Report is in the same format as in the Yellow Book [budget]). Direct comparisons of actual revenues to those budgeted can only be made with some aggregation, since the structure of revenue data capture is different between the budget and actual collections.

As GRZ operates on a cash basis, only actual expenditure as measured by cheques printed is reported; outstanding expenditure commitments are not reported, though it should be possible to do this, as procurement of goods and services, either through LPOs or contracts, must be conducted first and recorded in order for expenditures to take place.

Because in-year reports are currently produced by two different systems, the quarterly reports which are officially issued (and are on MoF's website) do not show all expenditures (i.e. those for MPSAs, e.g. MoH, which are on the IFMIS). IFMIS was piloted in MoF in 2010 and was rolled out to 15 MPSAs in 2011. At the time of this PEFA assessment, it had been rolled out to 28 MPSAs. Their financial transactions are recorded directly in IFMIS. The

[45] In line with the PEFA Guidelines, the assessment of this indicator is based on those reports actually prepared and distributed to those responsible for budget execution, not merely the potential for such (e.g. from the IFMIS).

[46] Source: Clarifications issued by the PEFA Secretariat, February 2012.

remaining 20 MPSAs are still recording financial transactions using CC/FMS. They are expected to submit data on these to MoF each month for analysis and reconciliation. The ZRA and thus revenue performance is not linked to IFMIS.

Expenditure and commitments entered into CC/FMS and IFMIS are matched against the budget estimates. As noted under PI-5, this matching has encountered problems due to differences between the codes used by IFMIS and the Budget Office. Many of these differences have been resolved and remaining differences are in the process of being reconciled.

The budget execution reports generated for management contain only numbers. They do not contain any commentary or analysis that explains budget performance relative to the approved budget and identifies any issues that appear to be arising, including those concerning data quality.

(ii) Timeliness of the issue of the reports

Budget execution reports are prepared monthly and quarterly for management (see PI-10 concerning availability to the public). Whilst monthly expenditure returns are generally submitted to MoF for consolidation by the 15th of the following month, some MPSAs experience delays in meeting the deadline, especially for those which have de-concentrated service delivery units. Quarterly reports, which are those officially issued and posted on MoF’s website, are issued within 8 weeks of the end of the quarter.

Other than officially issued reports, users with access to IFMIS, presently confined to the 28 sites where it has been rolled out, can call for on-screen or hard copy reports of expenditure and commitments at whatever level they wish. Thus, it is possible to generate a report at department level and at ministry level, and such reports are generated internally on demand for the information of senior management.[47] User capability to generate other reports they require appears limited. Some users informed the assessment team that they were having problems with producing reports from the IFMIS. CC/FMS users can generate reports at any time. Revenue performance reports are available to management with some delay.

(iii) Quality of information

In terms of the quality of information contained in the reports, budget execution reports may not reflect the current position on budget implementation, especially for sector MPSAs which are de-concentrated to District level. These carry out data entry on a quarterly basis and thus monthly reports may not reflect the actual situation. Delays in reporting the data add to the problem. The delays in accounting for imprests/advances may also have an impact on the quality of information. District expenditures financed by advances (grants from the centre) remains in suspense accounts until it is posted by means of the returns that show the spending of the advances.

The issues raised in (i) above concerning the mismatch of codes used by IFMIS and those used by Budget department also concern the quality of the data used to generate budget execution reports, though the mis-match applies only to a small number of codes.

The reports of the Auditor-General do not comment on the quality of data/information provided in the reports.

[47] However, as indicated above, these reports are not the subject of this assessment.

On-going and planned activities

The piloting and rolling out of the IFMIS will integrate budget preparation and execution, accounting and reporting functions into a single system, and is expected to result in improved quality of in-year budget performance reporting.

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-24: Quality and timeliness of in-year budget reports	**C**	**C**	**No change in performance.**
(i) Scope of reports in terms of coverage and compatibility with budget estimates	*C*	*C*	Expenditures are captured at the payment stage, but not all commitments (e.g. MPSAs using CC/FMS) are captured. The classification of budget data allows direct comparison to the original budget for expenditures, following the administrative and programme/activity classification (i.e. Statement C of the Financial Report is in the same format as in the Yellow Book [budget]); comparisons for revenues require some aggregation. However, because in-year reports are currently produced by two different systems, the quarterly reports which are officially issued (and are on MoF's website) do not show all expenditures (those for MPSAs, e.g. MoH, which are on the IFMIS).
(ii) Timeliness of the issue of reports	*C*	*C*	Official in-year budget execution reports are prepared monthly and quarterly, and the latter are expected to be issued within 8 weeks of the end of the period. The most recent quarterly reports were issued within this 8-week period.
(iii) Quality of information	*C*	*C*	The delays in posting expenditure at district level as well as delays in accounting for imprests/advances give rise to concerns about the quality of data in budget performance reports for those ministries with operations at district level. The mis-match of some of the IFMIS codes with the codes used by the Budget Department also raises issue about the quality of information.

PI-25: Quality and timeliness of annual financial statements

Consolidated year-end financial statements are critical for transparency in the PFM system. To be complete they must be based on details of all MPSAs. In addition the ability to prepare year-end financial statements in a timely manner is a key indicator of how well the accounting system is operating, and the quality of records maintained.

(i) Completeness of the financial statements

This dimension relates both to the content of the accounts and to the quality of the financial records that support them. The requirements to prepare and present annual financial statements for both revenues and expenditure are set out in the Constitution of Zambia under Article 118(1).

Following the adoption of International Public Sector Accounting Standards (IPSAS) in 2009, the presentation and statements of the Annual Financial Report were changed to align with the IPSAS – Cash Basis of Accounting. In this regard, the financial statements for the financial years 2010 and 2011 were revised to contain the following statements:

- Statements by the Minister, Secretary to the Treasury and Accountant General;
- Statement of Cash Receipts and Payments – Statement A;

- Statement of Budget Execution – Statement B;
- Statement of Detailed Budget Execution by MPSA – Statement C;
- Statement of Comparison of budgeted and actual revenues and expenditures (on functional [COFOG] basis) – Statement D;
- Statement of Public Debt – Statement E; and
- Notes to the Financial Statements

A number of annexes provide further detail to the statements.

Consolidated annual Financial Statements are contained in two volumes.[48] The first volume, known as the Financial Report, contains Statements A through E plus the Notes to the Financial Statements. The second volume contains the aggregation of the detailed MPSAs' Statements C (MPSAs' actual budget execution by programme/activity in the same form as in the budget volume, the Yellow Book). The fact that expenditures are shown in the same level of detail as contained in the Budget Estimates facilitates the explanation of variances. As indicated in PI-24, the structure of the revenue statements in the Yellow Book differs from the structure in the Financial Statements, thereby making direct, detailed comparisons of actual and budgeted revenues difficult

The quality of presentation has improved with the inclusion of the Financial Report (the first volume). Information included in the financial statements on revenues and expenditures is regarded as complete but full information on financial assets and liabilities is not included. At the same time, whilst the Report includes accounting notes to the Financial Statements, the notes do not cover financial performance and the reasons for variations in outturn compared to budget.

It is worth taking note of the Auditor-General's opinion on MPSAs' annual Financial Statements. In 2011, out of the 53 heads audited, the Auditor General has rendered an *unqualified opinion* on 29 MPSAs (representing 55%) and a *qualified opinion* on 24 MPSAs (representing 45%). This information is contained in Appendix 13 (Statement of Audit Opinion by Head) of the 2011 audited financial statements.

(ii) Timeliness of the submission of the annual financial statements (AFS)

In line with the Financial Regulations (198(1)), MPSAs submit their financial statements to the MoF (Accountant General's Department) by the end of March for review and consolidation, followed by submission one by one to the Office of the Auditor General (OAG) within six months of the end of the financial year. The OAG then conducts its audit of each statement, expresses an opinion and then submits it back to MoF. For the most recently completed fiscal year (2011), the Accountant General had received and submitted to the Auditor General all MPSA accounts by the end of October 2012, within ten months of the end of the fiscal year. The financial statements for 2009 and 2010 were submitted to the OAG for audit within six months of the end of the fiscal year (by the end of April).

In line with Article 121 of the Constitution of Zambia and the 2004 Public Finance Act, when the audited statements have been completed, the Accountant General's Office is required to compile the accounts into the summarised Financial Report and submit the Report, together

[48] In line with the clarifications to the PEFA Framework, the term 'consolidation' is understood here not in the strict accounting sense of the word but as in 'aggregated' central government accounts.

with the separate volume of compiled, detailed MPSAs' audited Statements C, to Parliament within 9 months of the end of the year. Table 17 shows the exact date when the financial statements were submitted to the OAG and to Parliament (the latter for PI-26 below).

Table 17: Dates of submission of Financial Statements to OAG and Parliament, Fiscal Years 2009-2011

Financial Year	Date of submission of Financial Statement to OAG1/	Date of Submission of Audited Financial Statement to Parliament2/
2009	30th April, 2010	30th September, 2010
2010	30th April, 2011	30th September, 2011
2011	30th October, 2012	December, 2012

1/ Reflects the date by which the OAG had received all MPSAs' statements and the consolidated picture.
2/ Relevant to PI-27 below. Shows date of submission of Audited Statements C as submitted to Parliament.

(iii) Accounting standards used

Chapter 4 of the Accounting and Financial Procedures Manual sets out the principal accounting concepts and policies to be used when preparing financial statements. The Government of Zambia has adopted the IPSAS cash standard as the accounting standard to be used in the preparation of its financial statements. The use of the IPSAS cash standard commenced in 2009 and in 2010, the Government was over 90 percent compliant. Under the IPSAS cash standard, the balance sheet is not a mandatory requirement and has not been prepared. Financial assets and liabilities are disclosed, however (real assets are not, however, as these have yet to be valued). The Government intends to move to the IPSAS accrual standard by 2020.

Progress since 2008 PEFA assessment

- The preparation of a summarised financial report in additional to the detailed report for the first time for the year ending 2010.
- The Accounting and Procedure Manual was updated.

On-going and planned strengthening activities

The IFMIS roll-out to the remaining MPSAs potentially increases the efficiency in the production and auditing of the financial statements. The Government also plans in the long term, to move progressively to full accrual accounting standards.

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-25: Quality and timeliness of annual financial statements	**C+**	**C+**	**Overall score unchanged, but the use of international accounting standards has improved.**
(i) Completeness of the financial statements	*C*	*C*	A consolidated annual financial statement, containing the aggregation of MPSAs' annual financial statements, is prepared annually and includes full information on revenues and expenditures but not on financial assets and liabilities.
(ii) Timeliness of submission of the financial statements	*B*	*B*	The financial statements for 2011 (the last completed fiscal year for which accounts were available and the basis for the assessment) were submitted to OAG within 10 months of the end of the fiscal year.
(iii) Accounting standards used	*C*	*B*	Accounting standards are presented in a consistent way and are disclosed in the accounts. The Government is 90% compliant with the IPSAS Cash standard, which was used for the first time for the preparation of the 2009 accounts.

3.7 External oversight and legislative scrutiny

This set of indicators looks at the quality and timeliness of external scrutiny of the government's budget estimates as well as the public accounts.

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

A high quality external audit is an essential requirement for creating transparency in the use of public funds.

The Office of the Auditor General (OAG) currently has about 500 staff in place, both at headquarters and in offices in a number of provinces. The establishment size is about 550 staff. With new provinces and districts being created from time to time (e.g. one new province and 12 new districts in 2011-2012, including two new districts created just prior to the end of the PEFA field work), the workload of OAG is increasing, causing strain on capacity.

OAG has received support from NORAD for institutional strengthening. The fourth phase of this support programme started in 2010.

(i) Scope and nature of audit

Coverage in terms of MPSAs: The OAG covers about 80 percent of all central government expenditures each year. The large spending ministries are audited every year (Education, Health, Agriculture, Works and Supplies, Home Affairs, Defence, MoF, Information and Broadcasting), as are the provincial administrations. The smaller ministries are audited every other year, as are the parastatals and district administrations. The grants to local councils and the operations of the CDF are audited every year.

Coverage in terms of items: Revenues, expenditures, financial assets and liabilities and the underlying internal control systems.

Type of audits: All traditional audits (financial and compliance) are systems-focused. The last pre-audit by OAG was conducted in Ministry of Health in 2009 following the discovery of fraud, leading some donors to stop their funding. The OAG makes use of internal audit reports, all of which are made available to OAG. Performance (value-for-money) audits are increasingly being conducted; the OAG had only just started on these at the time of the 2008 assessment. Recent examples are reports on forestry and gender mainstreaming. These types of audits are time consuming and so it is only possible to conduct a limited number each year. Parliament has indicated that it would like to see an increased focus on performance audits. The assessment team received copies of OAG's audit plans for 2010 and 2011.

Of particular note, as reported under PI-23, is the checking that budgeted resources for basic service delivery units (SDUs) (e.g. primary schools and health care units) are actually received by these units. Audits include: (i) the checking that grants from the parent ministries are received in SDU bank accounts (SDUs may have more than one bank account according to the type of expenditure); and (ii) the checking of the statements prepared by the SDU accounting for the use of the grants and checking of bank statements against these. Internal working papers and files record the checking process. Any leakages/mis-spending shows up in audit reports.

Compliance with INTOSAI standards: OAG reports comply with the majority of INTOSAI standards. The main area of non-compliance is the dependence on MoF for financing, through the same budgetary process as for executive branch of government. The OAG is accountable to Parliament, which should be the institution determining its budget. The OAG is peer-reviewed by other members of AFROSAI every 3-4 years. The assessment team received a copy of the most recent peer review report.

(ii) Timeliness of submission of audit reports to legislature

Two types of audit reports are sent to Parliament each year:

1) *Annual audited central government accounts[49], covering the previous fiscal year, prepared by MoF and audited by OAG.*

The audited annual accounts comprise:

- Statements by the Minister, Secretary to the Treasury and Accountant General;
- Statement A, consisting of a table showing consolidated cash receipts and payments and beginning and end-year cash positions;
- Statement B, which summarises budget execution in the previous year in terms of both revenue and expenditure;
- Statement C, showing actual expenditures of each MPSA against total authorised provision, along with the opinion of OAG on the extent to which the figures represent a fair presentation;
- Statement D, Summary of budgeted and actual revenue and expenditure (on COFOG basis);
- Statement E, Statement of Public Debt.

The process for preparing the audited accounts is explained under PI-25. After OAG has audited the financial statements of each MPSA and sent these back to MoF along with its audit opinion, the MoF sends the Consolidated Financial Report and Financial Statements to Parliament by the deadline (as specified in the 2004 Public Finance Act) of 30th September, three months after the deadline for submitting the financial statements to OAG. Table 17 above indicates the timing for presentation of these audited accounts to Parliament during the

[49] These accounts collectively refer to the budgetary central government consolidated statement.

last three years. Whilst the accounts for 2009 and 2010 met this deadline, the accounts for 2011 did not. Specifically, the consolidated audited financial statements were submitted to Parliament in September 2010 and 2011 for FYs 2009 and 2010, respectively, and in December 2012 for FY 2011.

2) Report of Auditor General on the Accounts (the compliance audit report)

As specified by the Constitution, the OAG's annual report on the annual accounts must be submitted to the President within 12 months of the end of the previous financial year, a deadline that is consistently met. The audit report is submitted to Parliament shortly thereafter.

Thus, the time between receipt of the financial statements of MPSAs and the completion by OAG of its annual report, together with the audited statements, is between 6 and 7 months.

(iii) Evidence of follow up on audit recommendations

MPSAs provide a formal written response in a timely fashion to OAG recommendations. Formally, the Executive is authorised to act on the Auditor General's Audit Reports only once the Reports have been discussed by the PAC and its report has been issued. Any recommendations not implemented are reflected in the OAG's report to Parliament, and are indicated as such to a certain degree in subsequent OAG's Audit Reports. Evidence from subsequent OAG reports suggests that some follow-up actions are undertaken by the audited entities, but they are either not systematic or not timely. The large ministries are more likely to have problems in implementing OAG recommendations than the smaller ones, because their operations range over the whole country and resolution of issues requires strong cooperation between MPSA head-quarters and staff at provincial administration and district level.

In practice, the OAG gives MPSAs several opportunities to address audit recommendations. The audit process begins early on in the new fiscal year through a visit to explain the audit process. It then continues with a further visit to examine internal control systems. The OAG then prepares an exit report outlining its findings and gives the MPSA thirty days to resolve the issues raised. If some issues remain outstanding, the OAG provides another 14 days for these to be resolved. The OAG then prepares an Audit Reference Sheet indicating any remaining issues, which are then mentioned in the end-year Auditor General's Report submitted to Parliament. Even then, MPSAs are given another chance, through the OAG submitting the relevant draft paragraphs to them for comment. The Auditor General's Report for the subsequent year lists the MPSAs which have not yet resolved the issues raised in the previous year's report and which had been referred to the Public Accounts Committee (see PI-28 below).

On-going and planned activities

- Continuing institutional support from NORAD, which will run up to 2014 and is focussed on building capacity of OAG to undertake a wide range of performance audits.

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-26: Scope, nature and follow-up of external audit	**B**	**B**	**No change in performance, but nevertheless the quality of the external function is strengthening over time.**
(i) Scope/nature of audit performed	*B*	*B*	80 percent of MPSAs (in terms of expenditures) were audited during 2010, and 100 percent are audited over a 2 year period; capacity constraints preclude 100 percent coverage per year (an A rating requires 100 percent coverage). Audits cover all items (revenues, expenditures, financial assets and liabilities) and focus on systems audit (no pre-audit). Value for money audits are increasingly being performed. Nearly all INTOSAI standards are complied with, the main exception being the dependence on the executive branch of Government for financing.
(ii) Timeliness of submission of audit reports to legislature	*B*	*B*	The OAG audits the financial statements of MPSAs by the end of August (for 2011 with reference to 2010) within 3 months of their receipt from MoF, which then sends the Consolidated Financial Report to Parliament by the end of September. The OAG's annual report on the Accounts must, as specified by the Constitution, be submitted to the President within 12 months of the end of the previous financial year, a deadline that is consistently met. The report is submitted to Parliament shortly thereafter. The time between receipt of the financial statements of MPSAs and the completion by OAG of its annual report is therefore 6-7 months.
(iii) Evidence of follow-up on audit recommendations	*B*	*B*	Thorough formal, written responses by MPSAs to audit recommendations are consolidated and contained in the Treasury Minute provided to Parliament by MoF in a timely fashion. A review of subsequent OAG reports suggests that there is evidence of some follow-up actions undertaken by the audited entities, but that these are either not systematic or not timely.

PI-27: Legislative scrutiny of the annual budget law

The power to give the government authority to spend rests with the legislature, and is exercised through the passing of the budget law.

(i) Scope of the Legislature's scrutiny

The Estimates Committee within Parliament is responsible for scrutinising the budget, conducting budget hearings and reporting to the House on the Budget. The Expanded Estimates Committee, which includes sector (portfolio) Committee Chairpersons, reviews in depth the annual budget policy statement (containing the budget's underlying fiscal policies and macro-fiscal aggregates), the Yellow Book, the Financial Report and the Establishment Register for each MPSA and prepares a report for the House. Parliament cannot change the total amount of the proposed Budget, but can adjust its composition. It prepares an adjustment report showing the changes it has made to the budget.

The Parliament also reviews the Green Paper (the MTEF), but has no formal approval role, as the Paper is not fully formalised as part of the budget preparation process. They would like to have more say in determining what the spending priorities should be. By the time they receive the draft Estimates, it is too late to discuss medium-term priorities.

Thus, the legislative review covers details of annual expenditures and revenues as well as fiscal policies for the coming year, but this detailed review does not cover the medium term.[50]

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

Procedures in Parliament are determined by the independent Standing Orders of the Parliament. Procedures are well established and respected. The latest 2005 Standing Orders (SOs) provide the rules of procedure, but do not go into detail on Committee procedures. The Expanded Estimates Committee meets as a whole and does not form sub-committees to review the budget by sectors.. The National Assembly has a research department whose services individual Members of Parliament can access should they so desire. Guided by the SOs, the Expanded Committee has 2 weeks to consider the Budget Policy Statement and write a report thereon to the House The Committee can call in Ministers.

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

The Constitution of Zambia (Amendment) Act 2009 requires that the Budget be presented to the National Assembly no later than the second Friday of October before the commencement of the next financial year and that the National Assembly approves the Budget no later than 31st December. This allows Parliament about two months to review the proposed budget, which appears to be sufficient time. The budgets for 2010-12 were all approved in December of the previous year. Presidential assent comes only 2-3 days after approval. The date of approval of the Appropriations Act is written on the Act document.

Under the old system (up to 2009), the Minister could submit estimates up to end-April, not allowing enough time for review prior to the legal deadline for approving the budget before the end of April.

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

The 2006 Financial Regulations make provision for variation of funds. Where proposed increases in expenditure on one item can be met from savings on another item within the programme or another programme, except in the case of personal emoluments, approval is required by the Secretary to the Treasury. Where this condition cannot be met, with variations that would result in expenditures over the approved budget, or the expenditure represents a carryover from the previous year (due to a fourth quarter budget release being received too late in December to be fully utilised; MoF permission is required for it to be carried over), or the expenditure is for an emergency, a supplementary budget has to be prepared. A supplementary is then prepared to normalise the expenditure in the year for which it is undertaken. However, no ceiling is provided in terms of the amount by which an appropriated amount may be increased through a supplementary budget, thus undermining budget credibility.

Where excess expenditure on one item can be met from savings on another item within the programme or another programme (not allowed for personal emoluments), approval of the Secretary to the Treasury is required. Where this condition cannot be met, or the expenditure is for an emergency, a supplementary budget has to be prepared and a Supplementary Appropriations Bill submitted to Parliament. Except in the case of emergencies, the Bill is

[50] With reference to the point made in this paragraph, the rating of this dimension is in line with the PEFA Secretariat's published list of clarifications in March 2012.

supposed to be approved prior to the adjustments being made, but in practice approval is often *ex post*. The definition of 'emergencies' tends to be loose.

Approval by Parliament of the Supplementary Appropriations Act(s) is supposed to be given *ex ante* (i.e. before the money is spent), but in practice it is usually *ex post* (as noted under PI-16). The supplementary budget is brought by MoF to Parliament once a year at the same time that the annual budget is approved in December.

The Financial Report for 2010, Statement D, shows a Supplementary Budget for K 3,700 billion, representing a significant 22 percent of the approved budget of K 16,718 billon budget. As noted under PI-16, the number of adjustments is sizeable, with little explanation provided.

The Constitution provides scope for 'excess expenditure' (spending during a year that exceeded the limits provided in the Appropriations Act and thus was illegal) being approved later by Parliament through an Excess Expenditure Appropriations Act following the submission of the audited financial statements to it. The 2006 Financial Regulations allow for this Bill to be submitted to the National Assembly within a period of thirty months after the end of the financial year to which it refers. In principle, Parliament does not have to approve and the excess expenditure could be recovered from the officers who approved the excess expenditure, but in practice Parliament approves. The 2010 Report of the Auditor General shows a rising year on year trend in excess expenditures, equivalent in 2009 to 4 percent of the original approved budget.

Progress since 2008 PEFA assessment

Amendment to the Constitution allows for the budget to be presented to Parliament before the second Friday of October and approved before the end of the year. This provides *ex ante* a specific amount of time for Parliament to approve the budget, an improvement over the previous situation, where the amount of time allowed depended on when the Minister of Finance submitted the draft budget to Parliament.

On-going and planned strengthening activities

The Constitution of Zambia (Amendment) Act 2009 provides for the enacting of budgeting and planning legislation that relate to the annual Budget and medium- to long-term development. A draft Planning and Budget Act is under preparation. The purpose of this Act is to set out responsibilities and a timeline for what parliament should approve. The scope of scrutiny would be expanded to include the Green Paper (thus enabling formal approval or otherwise of policies). The Estimates Committee would become a Budget Committee.

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-27: Legislative scrutiny of the annual budget law	**C+**	**C+**	**No overall change in performance, with the use of supplementary estimates being a limiting factor.**
(i) Scope of the legislature's scrutiny	*B*	*B*	The legislature's review covers fiscal policies and the macro-fiscal aggregate assumptions behind the coming year's budget, as well as the detailed annual expenditures and revenues, but it does not have a formal role in scrutinising the medium term parameters. By the time the legislature receives the draft Estimates, it is too late to discuss medium-term priorities
(ii) Extent to which the legislature's procedures are well-established and respected	*B*	*B*	Procedures are well established and respected. The latest 2005 Standing Orders provide the rules of procedure, but do not go into detail on Committee procedures.
(iii) Adequacy of time for the legislature to provide a response to budget proposals	*A*	*A*	The Constitution of Zambia (Amendment) Act 2009 requires that the Budget be presented to the National Assembly no later than the second Friday of October before the commencement of the next financial year and that the National Assembly approves the Budget no later than the 31st December. This allows Parliament about two months to review the proposed budget.
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	*C*	*C*	Rules exist for in-year amendments to the budget without prior approval by Parliament. However, external audit reports show that these rules are not always respected.

PI-28: Legislative scrutiny of external audit reports

The legislature has a key role in exercising scrutiny over the execution of the budget that is approved.

(i) Timeliness of examination of audit reports by the legislature

The Public Accounts Committee (PAC) of Parliament is responsible for carrying out the oversight of the use of funds appropriated by Parliament. Under Article 117(5) of the Constitution of the Republic of Zambia, PAC is tasked with examining the accounts which show the appropriation of sums granted by the National Assembly to meet public expenditures, and the Report of the Auditor-General on these accounts and other accounts. According to Standing Order 148, all Portfolio and General Purposes Committees (of which the Public Accounts Committee is one) shall table reports from time to time. By established Parliamentary practice, all committees are required to present a report to the House within the session.

Once the PAC receives the audit reports (which, as indicated in PI-26, for the last three years these have been submitted on time by OAG within the 12 months required of the Financial Regulations 199(1) and Article 121 of the Constitution), the PAC conducts its hearings in accordance with deadlines set by Parliament. Scrutiny by Parliament of audit reports received in the last three years has been completed within 11 months of their receipt.[51] Generally, PAC reports to Parliament in its June/August sitting. PAC currently has no backlog of reports.

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

PAC conducts detailed hearings on all cases with an adverse audit opinion and summons witnesses, including Controlling Officers, to appear and explain the findings. The Auditor General and the Accountant General are permanent witnesses. PAC also conducts site visits to verify issues identified in the Auditor General's report. Details of the PAC hearings are recorded in a PAC report which contains recommendations (see PI-28(iii) below). The preparation of this report may take time, depending upon the availability of resources (money and time) and the volume of work. These reports are submitted to the House for adoption, and, once adopted, they are also printed and made available to the public. The PAC hearings are open to the public but attendance of the public, NGOs and CSOs tends to be very low. PAC meetings are also broadcast live on radio.

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

Once the annual Audit Report, which contains the consolidated audit findings, has been completed and is submitted to Parliament, the responsibility for making recommendations rests with the PAC (and the wider Parliament), which communicates its recommendations to the Government in its report. Specifically, once the PAC report on the Audit Report has been adopted by the House, it is sent to the Secretary to the Treasury (ST), who notifies the MPSAs of PAC recommendations. The Executive's formal response to the audit recommendations is recorded in the Treasury Minute, which is presented to Parliament. The Treasury Minute contains a description of the follow-up actions undertaken by audited entities in response to PAC recommendations. The Executive is supposed to provide this Minute within sixty days of the PAC report's issuance, and it generally does. However, the PAC believes that the explanations provided are generally not satisfactory. The implementation of recommendations is not time-bound. Evidence from subsequent indicates that some recommendations have been implemented. For example, of 318 PAC recommendations made in 2008, 65 are closed, while 253 remain outstanding in 2012.

A PAC Sub-Committee on Outstanding Issues is appointed annually by PAC to follow up outstanding issues and review the Treasury Minute. The Committee consists of 2 Members of Parliament and is assisted by a technical committee made up of officials from the National Assembly, OAG and the office of the ST. The Committee is chaired by the Accountant-General. This Committee will follow up cases with a view to resolving them. The Committee conducts investigations and will, after submissions, make physical follow-up on some of the unresolved issues before producing a report.

On-going and planned activities

The current PAC is lobbying to change the present staffing of one clerk supporting PAC to two clerks. It is also arguing for PAC members to stay for their whole term and be able to make effective use of the training they receive, rather than being moved to different committees.

[51] This includes scrutiny by PAC and its review by the whole House.

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-28: Legislative scrutiny of external audit reports	**C+**	**C+**	**No change in performance, but generally this function is performing relatively well, with the main limitation being the time lag between review by PAC and adoption of PAC reports by the whole House.**
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	*C*	*C*	For those audit reports received by Parliament within the last three years, scrutiny of these reports has been completed within 11 months of their receipt.
(ii) Extent of hearings on key findings undertaken by the legislature	*A*	*A*	PAC conducts in-depth hearings on all cases with adverse opinion and summons Controlling Officers from all relevant entities as witnesses to explain the findings. The Accountant General and Auditor General are permanent witnesses. PAC meetings are broadcast live on radio.
(iii) Issuance of recommended actions by the legislature and implementation by the executive	*B*	*B*	After adoption by the House, the PAC report is sent to the Secretary to the Treasury (ST). The ST writes to the MPSAs informing them of PAC recommendations; the subsequent follow up undertaken by MPSAs is referenced in the Treasury Minute, which is presented to Parliament. The Outstanding Issues Sub-Committee is appointed annually by PAC to follow up outstanding issues and review the Treasury Minute. Evidence indicates that some (but not all) of these PAC recommendations are implemented by audited entities.

3.8 Donor practices

This section assesses donor practices, which impact upon the performance of a country PFM system. These practices are the exclusive responsibility of the donors and are primarily outside the authority of the GRZ.

D-1: Predictability of Direct Budget Support

(i) Deviation of actual budget support from the forecasts

Issues related to the projections of external loans and grants are of some concern. Past problems with the predictability of direct budget support (noted in the 2008 PEFA assessment report, for example) appear to have been largely resolved through the Poverty Reduction Budget Support donor group.

Since the 2008 PEFA assessment, the gap between projections and outturns of budget support projections has narrowed, reflected in the percentage of amounts of direct budget support actually provided over the amounts projected decreasing from 32.3% in 2009 to 5.3% in 2011 (Table 18).

Table 18: Predictability of Direct Budget Support

	US$ Millions			
	2008	**2009**	**2010**	**2011**
Projections of direct budget support	190.3	169.8	234.8	141.0
Outturns of direct budget support	0	224.7	206.8	148.5
% difference (actual over projected)	-100%	32.3%	-11.9%	5.3%

(ii) In-year timeliness of donor disbursements

Co-operating Partners now make quarterly projections of disbursements of budget support. These disbursements are agreed with GRZ at the beginning of the fiscal year, and actual disbursement delays (weighted) have not exceeded 50% in two of the last three years.

Based on data provided by CPs on the timing of planned and actual disbursements of direct budget support during the most recent 3-year period (2009-2011), the weighted delays in quarterly disbursements were greater than 50% in two of the last three years.

Year	In-year disbursement delays (weighted) for direct budget support
2009	32.2%
2010	89.1%
2011	63.3%

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
D-1: Predictability of Direct Budget Support	**D+**	**D+**	**Predictability has improved, with a narrowing of the gap between projections and outturns of direct budget support.**
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies	*C*	*B*	During the last three years, the difference between actual disbursements of direct budget support compared to projected amounts were: 2009: 32.3% 2010: -11.9% 2011: 5.3% Thus, in no more than one out of the last three years has budget support been less than the projected amounts by more than 10%.
(ii) In-year timeliness of donor disbursements	*D*	*D*	Since the last assessment, CPs have provided quarterly estimates of disbursements of direct budget support. During the last three years, the weighted in-year delays in disbursements by quarter were: 2009: 32.2% 2010: 89.1% 2011: 63.3%

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

For reference, Table 19 presents information on the budget estimates of programmes and projects for those co-operating partners who returned completed templates prepared by the PEFA team covering 2011.

Table 19: Summary of External Funding for Programmes and Projects, 2011 (bn K)

Donor	2011 Planned	2011 Actual	% deviation
DFID	205.0	239.9	17.0
Denmark	48.7	84.1	72.6
Germany	115.5	141.5	22.5
Norway	17.7	16.8	-5.0
Sweden	174.8	131.0	-25.0
TOTAL	**561.7**	**613.3**	**9.1**

Source: DFID, Denmark, Germany, Norway, Sweden

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

The majority of Co-operating Partners, including the five largest ones, provide estimates of project assistance to be provided to the Government for the coming year in line with the government's annual budget formulation process (i.e. by September of the previous year). These estimates are shown under the relevant MPSA programme and activity in the Yellow Book, and reflect the Government's budget classification.

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

Most Co-operating Partners notify MoF when funds are disbursed but they do not systematically provide to government quarterly reports showing disbursements of project support for at least 50% of externally-financed project estimates as shown in the budget. With the exception of the health, education and power sectors, through which CPs provide a lot of funding, they do not report using the Government's budget classification system. Reports on disbursements in other sectors use the CPs' own classification system.

On-going and planned activities

The Economic and Technical Cooperation Unit (ETC) of MoF is planning to establish a less administratively burdensome aid monitoring system, drawing on the experience of other countries. It is expected to be operational by 2013.

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
D-2: Financial information provided by donors for budgeting and reporting	**D+**	**D+**	**Performance has improved due to greater frequency of reporting on disbursements and greater use of GRZ's budget classification system.**
(i) Completeness and timeliness of budget estimates by donors for project support	*B*	*B*	Most donors (including the 5 largest) provide estimates of project assistance to the Government at the time of annual budget preparation (more than three months before the beginning of the fiscal year). This information is included in the Yellow Book under the relevant MPSA according to the Government's budget classification.
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	*D*	*D*	Donors do not systematically provide to government quarterly reports showing disbursements of project support for at least 50% of externally-financed project estimates as shown in the budget.

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

The dimension to be assessed is the overall proportion of aid funds to the regional government that are managed through national procedures (banking, authorisation, procurement, accounting, audit, disbursement and reporting).

According to the 2011 Paris Declaration Survey, 52% of external assistance uses national procedures for budget execution, financial reporting and audit (compared to 59% in 2007) and 54% use national procurement systems (compared to 59% in 2007). Use of national procedures has suffered a setback since 2008. In 2009 the transport and health sectors were beset by corruption scandals resulting from a lack of enforcement of financial regulations, and some donors withdrew.

Indicator (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
D-3: Proportion of aid that is managed by use of national procedures	**C**	**C**	**No change in score**. According to the latest Paris Declaration Monitoring Survey undertaken in 2011, 52% of external assistance uses national procedures for budget execution, financial reporting and audit (compared to 59% in 2007) and 54% uses national procurement systems (compared to 59% in 2007). The score remains the same, however, as the 50 percent threshold is still met.

4. Government reform process

4.1 Recent and on-going reforms

Background

Over the last few years Government with the support of Co-operating Partners has been implementing structural reforms focussing on PFM, Public Service Management (PSM), and Decentralisation, all aimed at improving the delivery of public services.

To underpin these reforms and provide a long term planning horizon, GRZ in 2005 re-started the development of a medium to long-term policy framework for national planning, which had been abandoned at the end of the one party state in 1991. The Government accordingly formulated the Vision 2030 covering 2006-2030, which reflects the "collective aspirations and determination of the Zambian people to become a prosperous middle income nation".[52]

To achieve this vision, the GRZ commenced medium term planning with the development of the Fifth National Development Plan (FNDP) covering 2006-2010, with the theme being "Broad based wealth and job creation through citizenry participation and technological advancement".[53] The progress made in implementing the FNDP was mixed, but the reintroduction of national development plans has contributed to an overall improvement in the country's multi-year perspective in fiscal planning, expenditure policy and budgeting.

The Sixth National Development Plan (SNDP) covers 2011-2015, and its theme is "sustained economic growth and poverty reduction". The objectives of the SNDP are: accelerated infrastructure development; economic growth and diversification; rural investment and poverty reduction; and enhancement of human development.[54] Lessons learned from the FNDP were incorporated into the SNDP, including: the need to link National Development Plans (NDP) to the budget process; the importance of integrating aid within the budgeting and reporting cycle; the need to review and come up with indicators and targets that meet quality standards; and the strengthening of information systems where they are weak.

Under PFM reforms which have been implemented under the Public Expenditure Management and Financial Accountability (PEMFA) Programme, Government has focused on improving the planning and budget process, budget execution, accounting and reporting, building both internal and external audit capacity, enhancing Parliamentary oversight and improving the regulatory framework for PFM.

In the area of public service management, the reforms have focussed on enhancing the efficiency and effectiveness of Government in managing human resources and the payroll, as well as improving organisational systems. The Government has also developed a Public Service Pay Policy (PSPP), which will systematically address the issue of remuneration of public servants in view of the problems associated with high public service wagebill. The policy will provide a comprehensive, objective and consistent framework for determining appropriateness, rationalising disparities, and harmonising structures of pay in the public service.

[52] Vision 2030.
[53] SNDP
[54] FNDP

The planned reforms on decentralisation focus on the devolution of power to the local government level.

The Government's PFM Strategy

The Government has developed a PFM Strategy covering the period 2013 to 2015. The strategy was approved by Cabinet in April 2012. The ultimate goal of the strategy is to ensure efficient, effective and accountable use of public resources as a basis for economic development and poverty eradication through improved service delivery. The focus of the strategy is on strengthening revenue collection and mobilisation, improving the planning and budget process, internal controls, investment and debt management, public procurement, accounting, treasury management, fiscal decentralisation and monitoring and evaluation.

By the end of 2012, the Government had formulated objectives, output and outcome indicators for each of the ten components. Implementation plans for the strategy were also in place and Government was discussing the funding modalities with Co-operating Partners and this is expected to be finalised before the end of June 2013. Implementation of the strategy is expected to start in July 2013.

Achievements since the last PEFA assessment

While not all achievements can necessarily be reflected in the PEFA scoring framework, important results include:

Improvements in the legal and regulatory framework for PFM

- The amendment to the Constitution of Zambia (Amendment) Act 2009, which changed the budget cycle (as described under Section 2 and PI-11 in Section 3), so that the budget for the following financial year is approved by Parliament before, rather than after, its commencement. This change in the budget cycle has improved the budget process and thus improved budget execution. A draft Planning and Budgeting Bill has been prepared to enhance the budget planning process and provide more scope for scrutiny of by Parliament.
- The enactment of the Public Procurement Act (PPA) of 2008 which has replaced the Zambia National Tender Board Act. The new Act has created the Zambia Public Procurement Authority (ZPPA) as an oversight institution. The Public Procurement Regulations, 2011 are also in place to guide procurement entities as they undertake procurement. A transition period was put in place until the end of 2012 (extended from the end of December 2011) is in effect in order to allow procurement entities to build up the procurement capacities.

Other improvements

- *The piloting of IFMIS in MoF in 2010 and subsequent roll out to 28 more sites.* However, there are unresolved functionality issues, differences in the chart of accounts (IFMIS vs Yellow Book), insufficient operational support for MPSA users and inadequate training. These issues are being addressed.
- *The development of a macro-economic model -- Zambia Macro-economic Model (ZAMMOD)* -- which is being used to carry out simulations on different economic data in order to aid short to medium term economic planning.

- *Development and operationalisation of the Debt Management Policy and Strategy,* which was approved by Cabinet in 2009. The draft Public Debt Management Procedures Manual is awaiting approval.
- *Strengthening of the Internal Audit Function: (i)* Installation and upgrading of Audit Command Language (ACL) software in MPSAs to aid internal auditors to undertake audits of the IFMIS and other computerised financial management systems in the public sector; (ii) Revision of the Internal Audit Manual; this has been distributed and will guide Internal Auditors in the conduct of internal audits; and (iii) the Audit Committee Handbook to guide members was prepared, printed and launched in 2010.
- *The Aid Policy was finalised and launched in 2008,* resulting in the formulation and agreement on standardised reports on aid flows between MPSAs and Co-operating Partners, who are now providing as much data as possible.
- *The decentralisation of the Office of the Auditor General to all provinces has been achieved,* leading to an increase in audit coverage, as noted under PI-26.
- *Improved public participation in Parliamentary business was achieved* through the construction of larger committee rooms, which are able to accommodate a larger number of members of the public who attend meetings of various Parliamentary Committees such as the PAC and Estimates Committee.
- *Human resource capacity building activities* were also undertaken in various areas where capacity gaps had been identified.

It is beyond the scope of the PEFA assessment to evaluate the quality, effectiveness and sustainability of these reforms, many of which are still on-going. The PEFA assessment suggests that most of the procedures/systems are in place and in line with international good practices. One of the major shortcomings which influence the performance of PFM systems, however, appears to be a significant degree of non-compliance with rules and systems, as also pointed out in successive annual audit reports prepared by the Office of the Auditor General.

4.2. Institutional factors supporting reform planning and implementation

Government leadership and ownership

A pre-requisite for successful implementation of any reforms in the public sector is Government leadership, commitment and ownership of the reforms at the highest level. In the case of Zambia, this commitment has been reflected by high-level involvement of top management in providing policy and operational direction in the implementation of these reforms. The Secretary to Cabinet is the Chairperson of the Public Service Reform Program (PSRP) Steering Committee which provides policy direction to the implementation of the three pillars of the PSRP which are Public Service Management, PEMFA Programme, and Decentralisation. The other members are the Permanent Secretaries of key MPSAs/sector ministries, including Finance, Education, Health, Local Government, Cabinet Office, Public Service Management Division, Management Development Division and Policy and Analysis Division. This Committee is mandated to meet quarterly.

Below the PSRP Steering Committee is the PEMFA Program Management Team chaired by the Secretary to the Treasury. This Committee is responsible for providing oversight in the implementation of the PFM reforms and meets quarterly. The Permanent Secretary for

Ministry of Finance is responsible for providing day-to-day oversight to the component managers responsible for implementing specific reform activities.

Despite this elaborate management structure, things have not worked as expected; meetings have not been held regularly as per the mandate of the committees and this has resulted in delays in addressing policy issues that have arisen during the implementation of the reforms. Decision-making has also not been as swift as expected, resulting in delays in implementing reform activities. The IFMIS implementation was delayed to a large extent due to failure by management to address the issues of incentives demanded by Government staff attached to IFMIS in good time.

The implementation of the Decentralisation policy has been very slow due to lack of political will by the previous Government. The new Government has showed renewed vigour to devolve power to the local authorities and steps have been taken in this direction such as the revision of the Local Government Act which is currently underway.

Co-ordination across governments

The draft PFM reform strategy suggests that implementation of the components will be mainstreamed within existing Government structures. The draft strategy assigns specific reform activities to existing units within the Ministry of Finance. The strategy also proposes Cross-MPSA reform Taskforces to be established on an ad hoc basis to deal with specific PFM outputs, under the overall leadership of the Permanent Secretary of the Ministry of Finance. This poses the risk, however, that, beyond operational co-ordination, co-ordination at high-political level may be lacking. Further, the strategy, in its current draft, seems to be deficient in terms of integrating various stakeholders at various levels into the PFM reform process and clearly delineating their role and responsibilities in the rolling out of reforms from MoF to MPSAs and lower levels of government.

Challenges

One of the key challenges has been the lack of a comprehensive change management strategy to prepare staff about the changes to be introduced so as to prevent any resistance. In the case of the PFM reforms, a change management strategy was developed towards the end of the PEMFA Program and it seems to have limited success as the framework proposed for implementation has not been fully put in place.

Procurement delays have also impacted negatively on the implementation of reform activities. These delays have been in certain instances due to capacity constraints in institutions carrying out reforms while in other cases has been as a result of cumbersome clearing processes required by Development Partners through the World Bank.

In addition, capacity constraints in implementing agencies to undertake the reforms have also been a serious constraint. Therefore capacity building interventions; dissemination of information, orientation of staff in new systems/methods of doing things should continue in order to sustain the momentum of the reforms.

Annex A: Budget performance tables (PI-1 and PI-2)

MPSA : K: 2009	budget	actual	adjusted budget	deviation	absolute deviation	%
MINISTRY OF EDUCATION	2,424,553,292,462	2,738,156,579,438	2,695,838,071,871	42,318,507,567	42,318,507,567	1.6%
MINISTRY OF FINANCE AND NATIONAL PLANNING +CONST.EXP (primary)	1,185,508,147,515	1,402,474,143,421	1,318,155,393,210	84,318,750,211	84,318,750,211	6.4%
MINISTRY OF HEALTH	1,133,926,613,690	1,191,323,099,736	1,260,802,369,409	-69,479,269,673	69,479,269,673	5.5%
MINISTRY OF DEFENCE	1,067,259,617,404	1,112,789,795,521	1,186,675,961,347	-73,886,165,826	73,886,165,826	6.2%
LOANS AND INVESTMENTS - MINISTRY OF FINANCE	921,030,955,968	1,050,767,222,076	1,024,085,683,821	26,681,538,255	26,681,538,255	2.6%
MINISTRY OF AGRICULTURE AND COOPERATIVES	919,372,140,160	1,200,938,839,347	1,022,241,262,078	178,697,577,269	178,697,577,269	17.5%
ZAMBIA POLICE - MINISTRY OF HOME AFFAIRS	446,341,234,366	439,437,431,139	496,282,633,337	-56,845,202,198	56,845,202,198	11.5%
PUBLIC SERVICE MANAGEMENT DIVISION	332,355,204,609	301,650,645,907	369,542,635,650	-67,891,989,743	67,891,989,743	18.4%
MINISTRY OF JUSTICE	289,650,420,584	231,284,685,437	322,059,586,717	-90,774,901,280	90,774,901,280	28.2%
MINISTRY OF FOREIGN AFFAIRS	245,496,685,366	243,913,085,115	272,965,462,539	-29,052,377,424	29,052,377,424	10.6%
MINISTRY OF LOCAL GOVERNMENT AND HOUSING	234,350,684,836	256,883,802,887	260,572,329,061	-3,688,526,174	3,688,526,174	1.4%
NATIONAL ASSEMBLY	230,018,367,548	248,832,951,076	255,755,266,091	-6,922,315,015	6,922,315,015	2.7%
ZAMBIA SECURITY INTELLIGENCE SERVICES - OFFICE OF THE PRESIDENT	213,135,981,504	221,952,951,458	236,983,899,348	-15,030,947,890	15,030,947,890	6.3%
MINISTRY OF HOME AFFAIRS	188,473,886,609	175,559,220,836	209,562,347,280	-34,003,126,444	34,003,126,444	16.2%
MINISTRY OF WORKS AND SUPPLY	167,623,882,240	155,581,285,815	186,379,422,924	-30,798,137,109	30,798,137,109	18.4%
JUDICIARY	127,666,999,977	112,224,018,474	141,951,740,195	-29,727,721,721	29,727,721,721	23.3%
MINISTRY OF SCIENCE, TECHNOLOGY AND VOCATIONAL TRAINING -	109,232,978,027	108,919,104,020	121,455,124,036	-12,536,020,016	12,536,020,016	11.5%
MINISTRY OF COMMUNICATIONS AND TRANSPORT	105,120,779,122	82,799,060,528	116,882,808,632	-34,083,748,104	34,083,748,104	32.4%
MINISTRY OF ENERGY AND WATER DEVELOPMENT	96,815,959,011	296,568,386,219	107,648,757,022	188,919,629,197	188,919,629,197	195.1%
LOANS AND INVESTMENTS - LOCAL GOVERNMENT AND HOUSING	82,107,206,673	152,749,455,409	91,294,233,215	61,455,222,194	61,455,222,194	74.8%
21 (= sum of rest)	819,166,587,789	883,152,871,906	910,823,647,982	-27,670,776,076	27,670,776,076	3.4%
Total expenditure	11,339,207,625,460	12,607,958,635,765	12,607,958,635,765	0	1,164,782,449,386	
contingency	50,000,000,000	0				
total expenditure	11,389,207,625,460	12,607,958,635,765				
overall (PI-1) variance						10.7%
composition (PI-2) variance						9.2%
contingency share of budget						0.0%

MPSA : K: 2010	budget	actual	adjusted budget	deviation	absolute deviation	%
MINISTRY OF EDUCATION	2,922,091,878,876	2,813,946,791,917	3,471,858,929,839	-657,912,137,922	657,912,137,922	18.9%
MINISTRY OF HEALTH	1,371,692,096,312	1,453,519,552,732	1,629,764,446,491	-176,244,893,759	176,244,893,759	10.8%
MINISTRY OF DEFENCE	1,344,080,814,561	1,332,438,468,176	1,596,958,333,923	-264,519,865,747	264,519,865,747	16.6%
LOANS AND INVESTMENTS	1,319,576,123,699	1,699,890,378,156	1,567,843,291,235	132,047,086,921	132,047,086,921	8.4%
MINISTRY OF FINANCE AND NATIONAL PLANNING +CONST.EXP (primary)	1,233,211,340,669	2,046,857,003,413	1,465,229,699,460	581,627,303,953	581,627,303,953	39.7%
MINISTRY OF AGRICULTURE AND COOPERATIVES	708,693,118,505	2,069,914,935,331	842,027,778,040	1,227,887,157,291	1,227,887,157,291	145.8%
ZAMBIA POLICE - MINISTRY OF HOME AFFAIRS	535,815,105,013	523,647,724,227	636,624,217,921	-112,976,493,694	112,976,493,694	17.7%
PUBLIC SERVICE MANAGEMENT DIVISION	298,548,168,570	220,127,086,875	354,717,499,655	-134,590,412,780	134,590,412,780	37.9%
MINISTRY OF LOCAL GOVERNMENT AND HOUSING	298,339,149,488	259,297,361,827	354,469,155,388	-95,171,793,561	95,171,793,561	26.8%
MINISTRY OF JUSTICE	289,117,852,148	242,265,512,633	343,512,948,382	-101,247,435,749	101,247,435,749	29.5%
MINISTRY OF FOREIGN AFFAIRS	283,952,206,795	321,732,794,004	337,375,430,231	-15,642,636,227	15,642,636,227	4.6%
MINISTRY OF HOME AFFAIRS	247,856,741,144	294,315,598,131	294,488,905,802	-173,307,671	173,307,671	0.1%
ZAMBIA SECURITY INTELLIGENCE SERVICES - OFFICE OF THE PRESIDENT	232,219,324,867	255,919,899,678	275,909,440,955	-19,989,541,277	19,989,541,277	7.2%
MINISTRY OF LIVESTOCK AND FISHERIES DEVELOPMENT	181,284,029,106	94,995,999,472	215,391,096,987	-120,395,097,515	120,395,097,515	55.9%
NATIONAL ASSEMBLY	175,885,302,412	185,542,474,651	208,976,645,198	-23,434,170,547	23,434,170,547	13.3%
JUDICIARY	162,752,648,014	135,043,611,222	193,373,192,146	-58,329,580,924	58,329,580,924	35.8%
MINISTRY OF WORKS AND SUPPLY	139,986,370,175	150,138,379,388	166,323,630,294	-16,185,250,906	16,185,250,906	11.6%
ELECTORAL COMMISSION	118,341,086,922	150,521,611,112	140,605,968,747	9,915,642,365	9,915,642,365	8.4%
MINISTRY OF ENERGY AND WATER DEVELOPMENT	117,482,387,222	249,554,101,265	139,585,711,909	109,968,389,356	109,968,389,356	93.6%
MINISTRY OF SCIENCE, TECHNOLOGY AND VOCATIONAL TRAINING	111,444,205,547	95,260,211,536	132,411,497,053	-37,151,285,517	37,151,285,517	33.3%
21 (= sum of rest)	1,044,406,011,039	1,013,420,556,318	1,240,902,232,410	-227,481,676,092	227,481,676,092	21.8%
Total expenditure	13,136,775,961,084	15,608,350,052,064	15,608,350,052,064	0	4,122,891,159,773	
contingency	28,151,785,559	0				
total expenditure	13,164,927,746,643	15,608,350,052,064				
overall (PI-1) variance						18.6%
composition (PI-2) variance						26.4%
contingency share of budget						0.0%

MPSA : K: 2011	budget	actual	adjusted budget	deviation	absolute deviation	%
MINISTRY OF EDUCATION	3,571,076,324,591	3,379,393,817,458	4,744,700,205,670	-1,365,306,388,212	1,365,306,388,212	28.8%
LOANS AND INVESTMENTS	1,785,464,409,705	3,361,834,547,493	2,372,252,111,670	989,582,435,823	989,582,435,823	41.7%
MINISTRY OF HEALTH	1,758,592,077,757	1,859,712,175,659	2,336,548,265,733	-476,836,090,074	476,836,090,074	20.4%
MINISTRY OF DEFENCE	1,502,512,496,519	1,690,927,008,061	1,996,308,872,528	-305,381,864,467	305,381,864,467	15.3%
MINISTRY OF FINANCE AND NATIONAL PLANNING +CONST.EXP (primary)	1,273,695,948,342	1,739,938,812,844	1,692,292,429,160	47,646,383,684	47,646,383,684	2.8%
MINISTRY OF AGRICULTURE AND COOPERATIVES	866,635,452,488	2,785,546,795,404	1,151,452,681,463	1,634,094,113,941	1,634,094,113,941	141.9%
ZAMBIA POLICE - MINISTRY OF HOME AFFAIRS	630,567,910,015	683,981,206,585	837,802,225,546	-153,821,018,961	153,821,018,961	18.4%
PUBLIC SERVICE MANAGEMENT DIVISION	412,505,994,552	806,233,527,375	548,074,893,755	258,158,633,620	258,158,633,620	47.1%
MINISTRY OF FOREIGN AFFAIRS	356,178,852,615	336,753,713,585	473,235,999,920	-136,482,286,335	136,482,286,335	28.8%
MINISTRY OF LOCAL GOVERNMENT AND HOUSING	320,797,867,421	351,663,397,049	426,227,156,516	-74,563,759,467	74,563,759,467	17.5%
ELECTORAL COMMISSION	282,763,088,718	441,852,567,242	375,692,358,060	66,160,209,182	66,160,209,182	17.6%
ZAMBIA SECURITY INTELLIGENCE SERVICES - OFFICE OF THE PRESIDENT	281,390,446,217	311,390,330,847	373,868,600,580	-62,478,269,733	62,478,269,733	16.7%
NATIONAL ASSEMBLY	269,576,976,493	292,701,834,798	358,172,668,280	-65,470,833,482	65,470,833,482	18.3%
MINISTRY OF JUSTICE	253,472,407,611	275,345,903,455	336,775,379,524	-61,429,476,069	61,429,476,069	18.2%
MINISTRY OF ENERGY AND WATER DEVELOPMENT	222,468,658,099	451,983,188,922	295,582,337,619	156,400,851,303	156,400,851,303	70.3%
MINISTRY OF HOME AFFAIRS	209,097,136,276	227,092,945,799	277,816,303,914	-50,723,358,115	50,723,358,115	24.3%
MINISTRY OF LIVESTOCK AND FISHERIES DEVELOPMENT	196,797,290,587	159,910,229,532	261,474,149,598	-101,563,920,066	101,563,920,066	51.6%
JUDICIARY	189,486,588,990	188,035,161,554	251,760,807,116	-63,725,645,562	63,725,645,562	33.6%
MINISTRY OF WORKS AND SUPPLY	151,183,109,618	212,785,570,186	200,869,000,295	11,916,569,891	11,916,569,891	7.9%
LOANS AND INVESTMENTS - LOCAL GOVERNMENT AND HOUSING	145,795,504,023	222,582,862,074	193,710,773,741	28,872,088,333	28,872,088,333	19.8%
Sum of rest	1,388,867,363,191	1,570,266,220,370	1,845,314,595,603	-275,048,375,233	275,048,375,233	19.8%
Total expenditure	16,068,925,903,828	21,349,931,816,292	21,349,931,816,292	0	6,385,662,571,555	
Contingency	40,000,000,000	0				
total expenditure	16,108,925,903,828	21,349,931,816,292				
overall (PI-1) variance						32.5%
composition (PI-2) variance						29.9%
contingency share of budget						0.0%

Annex B: Documents list

1. Guidelines to the PEFA Public Financial Management Performance Measurement Framework (Revised January 2011)
2. Zambia – 2008 Public Financial Management Performance Report and Performance Indicators
3. Constitution of Zambia Volume 1
4. First Draft Constitution of Zambia 2012
5. The Public Finance Act, 2004
6. The Public Finance Act, 2004 – Financial Regulations 2006
7. The National Payment System Act 2007
8. Public Procurement Act No. 12 of 2008
9. Office of the Accountant General Accounting and Financial Procedures Manual (Accounting Guide)
10. The Public Procurement Act, 2008 – The Public Procurement Regulations, 2011
11. Fifth national Development Plan 2006 – 2010
12. 2009 Annual Progress Report of the Fifth National Development Plan
13. Sixth National Development Plan 2011 - 2015
14. The 2009 – 2011 Medium Term Expenditure Framework and 2009 Budget Green Paper
15. The 2010 – 2012 Medium Term Expenditure Framework and 2009 Budget Green Paper
16. The 2011 – 2013 Medium Term Expenditure Framework and 2009 Budget Green Paper
17. The 2012 – 2014 Medium Term Expenditure Framework and 2009 Budget Green Paper
18. The 2013 – 2015 Medium Term Expenditure Framework and 2009 Budget Green Paper
19. 2008 Budget Address by the Minister of Finance and National Planning
20. 2009 Budget Address by the Minister of Finance and National Planning
21. 2010 Budget Address by the Minister of Finance and National Planning
22. 2011 Budget Address by the Minister of Finance and National Planning
23. 2012 Budget Address by the Minister of Finance and National Planning
24. 2009 – 2011 Medium Term Budget Call Circular
25. 2009 – 2011 Medium Term Budget Call Circular
26. 2011 – 2013 Medium Term Budget Call Circular
27. 2012 – 2014 Medium Term Budget Call Circular
28. Estimates of Revenue and Expenditure (Activity Based Budget) for the year 2008
29. Estimates of Revenue and Expenditure (Activity Based Budget) for the year 2009
30. Estimates of Revenue and Expenditure (Activity Based Budget) for the year 2010
31. Estimates of Revenue and Expenditure (Activity Based Budget) for the year 2011
32. Estimates of Revenue and Expenditure (Activity Based Budget) for the year 2012
33. Supplementary Estimates of Expenditure No. 1 of 2009 for Approval of the National Assembly
34. Supplementary Estimates of Expenditure No. 1 of 2010 for Approval of the National Assembly
35. Supplementary Appropriation (2007) - Act No. 7 of 2009
36. Supplementary Appropriation (2008) - Act No. 11 of 2010
37. Supplementary Appropriation (2009) - Act No. 25 of 2011
38. Supplementary Appropriation (2009) - Act No. 11 of 2010
39. Ministry of Finance and National Planning Financial Report for the Year Ended 31st December 2008

40. Ministry of Finance and National Planning Financial Report for the Year Ended 31st December 2009
41. Ministry of Finance and National Planning Financial Report for the Year Ended 31st December 2010 (including Summarised Financial Report)
42. Ministry of Finance and National Planning Financial Report for the Year Ended 31st December 2011
43. Medium Term Expenditure Framework Review Final Report
44. Guidelines on the Preparation of Councils' MTEF Estimates for 2011 – 2013
45. Guidelines on the Preparation of Councils' Annual Revenue, Expenditure and Capital Estimates 2011
46. Guidelines on the Preparation of Councils' Annual Revenue, Expenditure and Capital Estimates 2012 including Addendum
47. Approval of Councils' 2010 Budgets
48. MOFNP Treasury and Financial Management Circular Number 01 of 2009 to All Controlling Officers
49. MOFNP Treasury and Financial Management Circular Number 01 of 2010 to All Controlling Officers
50. MOFNP Treasury and Financial Management Circular Number 01 of 2011 to All Controlling Officers
51. MOFNP Treasury and Financial Management Circular Number 01 of 2012 to All Controlling Officers
52. ZRA Annual Report 2008
53. ZRA Annual Report 2009
54. ZRA Annual Report 2010
55. ZRA Annual Report 2011
56. ZRA Corporate Plan 2007 – 2009
57. ZRA Corporate Plan 2011 – 2013
58. ZRA Interim Corporate Plan 2010
59. ZRA Code of Ethics
60. ZRA VAT Guide 2010
61. Practice Note No. 1/2008 covering Income Tax (Amendment) Act 2008, Mines and Minerals Development Act 2008 and Value Added Tax (Amendment) Act 2008
62. ZRA 2012 Consolidation of the Value Added Tax Act Chapters 331 of the Laws of Zambia
63. Unofficial Consolidation of the Income Tax Act 2012 Edition (includes amendments up to 1st April 2012)
64. SI No. 97 of 199, The Income Tax Act (Laws, Volume 19, Cap. 323) – The Income Tax (Pay as You Earn) Regulations, 1999
65. SI No. 20 of 2000, The Income Tax Act (Laws, Volume 19, Cap 323) – The Income Tax (Transfer Pricing) Regulations, 2000
66. SI No. 47 of 2009, The Income Tax Act (Laws, Volume 19, Cap 323) – The Income Tax (Turnover Tax) Regulations, 2009
67. SI No. 88 of 2010, The Value Added Tax Act (Laws, Volume 19, Cap 331) – The Value Added Tax (General) Regulations, 2010
68. SI No. 50 of 2011, The Value Added Tax Act (Laws, Volume 19, Cap 331) – The Value Added Tax (Zero-Rating) Order, 2011
69. SI No. 132 of 2011, The Value Added Tax Act (Laws, Volume 19, Cap 331) – The Value Added Tax (Exemption) (Amendment) Order, 2011

70. SI No. 49 of 2011, The Value Added Tax Act (Laws, Volume 19, Cap 331) – The Value Added Tax (Exemption) Order, 2011
71. The Property Transfer Tax Act (Chapter 340 of the Laws of Zambia)
72. Practice Note No. 1/2009 covering Income Tax (Amendment) Act 2009, Value Added Tax (Amendment) Act 2009 and Property Transfer Tax (Amendment) Act 2009
73. Practice Note No. 1/2010 covering Income Tax (Amendment) Act No. 27 of 2009, Value Added Tax (Amendment) Act No. 29 of 2009
74. ZRA Practice Note No. 1/2011
75. ZRA Practice Note No. 1/2012
76. ZRA Taxpayer Appreciation Day Pamphlets
77. Revenue Appeals Tribunal Progress Report for 2009 to 2011
78. Report of the Auditor General on the Accounts for the Financial Year Ended 31st December 2008
79. Report of the Auditor General on the Accounts for the Financial Year Ended 31st December 2009
80. Report of the Auditor General on the Accounts for the Financial Year Ended 31st December 2010
81. Report of the Auditor General on the Accounts for the Financial Year Ended 31st December 2011
82. Report of the Public Accounts Committee on the Report of the Auditor General for 2008 on the Accounts of Parastatal Bodies for the Fifth Session of the Tenth National Assembly
83. Appendix 1 (Outstanding Issues) of the Report of the Public Accounts Committee on the Report of the Auditor General for 2008 on the Accounts of Parastatal Bodies for the Fifth Session of the Tenth National Assembly
84. Report of the Public Accounts Committee on the Report of the Auditor General for 2008 on Accounts for the Financial Year Ended 31st December 2009
85. Treasury Minute on the Fifth Report of the Public Accounts Committee on the Report of the Auditor General for 2008 on the Accounts of the Financial Year Ended 31st December 2008
86. Treasury Minute on the Report of the Public Accounts Committee on the Report of the Auditor General for 2008 on the Accounts of Parastatal Bodies presented to National Assembly by the Minister of Finance and National Planning
87. Treasury Minute on the Report of the Public Accounts Committee for the Fifth Session of the Tenth National Assembly on the Report of the Auditor General on the Accounts for the Financial Year Ended 31st December 2009 Presented to National Assembly by the Minister of Finance and National Planning
88. Audit Committee Handbook (January 2009)
89. Ministry of Health Audit Inspection Report for Senanga District Medical Office (Internal Audit Report No. 21 of 2011)
90. Ministry of Health Audit Inspection Report for Mpulungu District Medical Health Office (Internal Audit Report No. 23 of 2011)
91. Ministry of Health Special Internal Audit Report for Kasama School of Nursing ((Internal Audit Report No. 5/2012)
92. Ministry of Health Audit Committee Report to the Secretary to the Treasury for 2011
93. Report on the Audit of Non Tax Revenue at Ministry of Lands for the period 1st January 2009 to 30th June 2010
94. Internal Audit Report on the Verification of Domestic Arrears for the Fourth Quarter of 2008
95. Internal Audit Report on the Verification of Domestic Arrears for the Fourth Quarter of 2009

96. Internal Audit Report on the Verification of Domestic Arrears for the Fourth Quarter of 2010
97. Internal Audit Report on the Verification of Domestic Arrears for the Fourth Quarter of 2011
98. Internal Audit Report on the Verification of Domestic Arrears for the Fourth Quarter of 2012
99. Internal Audit Report on the Zambia National Broadcasting Corporation (ZNBC) for the period 1st April 2008 to 31st March 2010
100. Report on the Audit of the State Lotteries Board for the period 1st January 2006 to 31st December 2008
101. Revised Internal Audit Manual (Draft)
102. Strategic Plan for the Internal Audit Department 2012 - 2016
103. Ministry of Health National Health Strategic Plan 2011 – 2015
104. Ministry of Education 2009 Annual Progress Report
105. Ministry of Education National Implementation Framework 2008 – 2010
106. Ministry of Education Infrastructure Operational Plan 2008
107. Ministry of Education Infrastructure Operational Plan 2009
108. Ministry of Education Infrastructure Operational Plan 2010
109. 2010 Ministry of Education Joint Annual Review Report
110. Tazama Pipelines Ltd 2009 Annual Report
111. Zambia National Commercial Bank 2011 Annual Report
112. Aid policy and Strategy for Zambia (May 2007)
113. Development Cooperation Report 2009
114. Debt Management Performance Assessment (DeMPA) (April 2011)
115. Report of the MEFMI Institutional Review Mission on Public Debt Management in Zambia
116. Public Debt Management Procedures Manual (Draft)
117. Report on Strengthening Public Financial Management: A Strategy for Reforms (June 2009) by the IMF
118. Report on Technical Review of Pilot IFMIS and its use in Government Budgeting, accounting, and Financial Reporting by IMF
119. 2010 PEMFA Secretariat Exit Report
120. Cabinet Office Circular No. 7 of 2012 on Management of Transport in the Public Service following Introduction of Transport Allowance
121. Correspondence on Creation of Internal Audit Directorates
122. Correspondence on Opening of Donor Accounts
123. Correspondence on 2012 Second Quarter Funding Ceilings
124. Memorandum of Understanding Between GRZ and Donors supporting PEMFA (Revised 30th June 2011)
125. Status Reports on MPSAs Bank Reconciliations for 2008, 2009, 2010 and 2011
126. Bank Reconciliation Statement for National assembly for the month of May 2012
127. 2012 Funding Profiles for 1st and 2nd Quarter for Lusaka Provincial Administration

Annex C: List of Stakeholders Met

Name	Organisation	Position
Ministry of Finance		
Fredson K. Yamba	MoF	Secretary to the Treasury
Abraham Mwenda	MoF	Permanent Secretary
Joel M. Ukwimi	Office of the Accountant General	Acting Accountant General
Pamela Chibonga	Budget Office	Director
Felix Nkuluksa	Economic Management Department	Director
Percy Musona	Budget Office	Principal Budget Analyst
Nsandi Manza	Office of the Accountant General	Acting Deputy Accountant General-FRI
David Kongwa	Office of the Accountant General	Acting Chief Accountant
Gibson Mwile	PMU	Principal Accountant
Mulenga M. Mwanza	EMU	Principal Accountant
Fortune Kamusaki	Investment & Debt Management Department,	Acting Director
John Banda	Investment & Debt Management Department,	Acting Chief Economist
Tamara S. Ngoma	Investment & Debt Management Department,	Chief Accountant
Kamphasa Phiri	Investment & Debt Management Department,	Economist
Clara M. Mazimba	PEMFA Coordination Unit	Finance Manager
Fred Muyowe	Office of the Accountant General	Acting Senior Accountant
Cornelius Akapelwa	M & E Department	M & E Officer
Joyce P. Sundano	Office of the Controller, Internal Audit	Controller, Internal Audit
Namaambo M. Kaliyangile	Office of the Controller, Internal Audit	Chief Internal Auditor
Katai Jumba	Office of the Controller, Internal Audit	Chief Internal Auditor
Florence Maboshe	Office of the Controller, Internal Audit	Chief Internal Auditor
Barabina Mporokoso	Office of the Controller, Internal Audit	Chief Internal Auditor
Chisola Mulenga	Office of the Controller, Internal Audit	Chief Internal Auditor
Sydney Siluonde	Office of the Controller, Internal Audit	Senior Internal Auditor
Monde Sitwala	Economic and Technical Cooperation	Deputy Director
Rachel G. Zyambo	IFMIS Project	Project Manager
Edward Simukoko	IFMIS Project	Budget Manager
Millica Musonda	IFMIS Project	Manager Accounting, IFMIS
Michelle Sinda	IFMIS Project	Senior Planner, IFIMS
Rachel Gondwe	IFMIS Project	Senior Planner, IFIMS
Innocent Mututa	IFMIS Project	Quality Assurance Manager
Megan Gray	US-Treasury Office of Technical Assistance	Advisor
Michael A. Ablowich	US-Treasury Office of Technical Assistance	Cash Management Advisor
Emmy Chenguluka	Cash Management Unit, MoF	Assistant Director
Zambia Revenue Authority		
Priscilla Banda	Zambia Revenue Authority	Commissioner

Name	Organisation	Position
Maimbo Nyanga	Zambia Revenue Authority	Director, Research and Planning
Briggite Muyenga	Zambia Revenue Authority	Acting Commissioner, Finance and IT
Ignatius Mvula	Zambia Revenue Authority	Assistant Director, Domestic Taxes
Arnold Nkoma	Zambia Revenue Authority	Acting Deputy Commissioner, Customs
Michael Mwale	Zambia Revenue Authority	Senior Collector
Peter Phiri	Zambia Revenue Authority	Acting Director, Larger Taxerper
Tilson Musowoya	Zambia Revenue Authority	Acting Executive Assistant, CG
Nana Mudenda	Zambia Revenue Authority	Commissioner
Ministry of Education (MOE)		
Felix Phiri	Ministry of Education	Director, Planning and Information
Madrine B. Mbuta	Ministry of Education	Chief Procurement Officer
Ringo Zulu	Ministry of Education	Principal Internal Auditor
Ivor Muluba	Ministry of Education	Senior Accountant
Yoshie Hama	Ministry of Education	Education Policy Advisor
Julius J. Shawa	Ministry of Agriculture	Director, Policy and Planning
Ministry of Agriculture		
Julius J. Shawa	Ministry of Agriculture and Livestock and Fisheries	Deputy Director, Policy and Planning
Nicholas Chikwenya	Ministry of Agriculture and Livestock and Fisheries	Deputy Director, Policy and Planning
P.C. Ndhlovu	Ministry of Agriculture and Livestock and Fisheries	Acting Chief Accountant
Ministry of Health		
Mubita Luwabelwa	Ministry of Health	Acting Director, Policy and Planning
Namata Kalaluka	Ministry of Health	Chief Accountant
Henry Malikyama	Ministry of Health	Head of Procurement
Norah M. Sichilongo	Ministry of Health	Principal Auditor
Ministry of Transport, Works,Supply and Communication		
Harry Kanyama	Ministry of Transport, Works, Supply and Communication	Principal Accountant
Louis Lukama	Ministry of Transport, Works, Supply and Communication	Senior Accountant
Chizaso Thole	Ministry of Transport, Works, Supply and Communication	Accountant
Evelyn Lupenga	Ministry of Transport, Works, Supply and Communication	Accountant
Masozi Longwe	Ministry of Transport, Works, Supply and Communication	Assistant Accountant
Innocent Dizomba	Ministry of Transport, Works, Supply and Communication	Senior Procurement Officer
Ministry of Local Government and Housing		
Jimmy Chulu	Department of Local Government	Assistant Director

Name	Organisation	Position
Margaret Mwale	Ministry of Local Government	Principal Accountant
Public Service Management Division		
George Mbasela	Public Service Management Division	Technical Support Specialist
Vivien Ndhovu	Public Service Management Division	Organisation Management Specialist
Zambia Public Procurement Authority		
Dainess Chisenda	Zambia Public Procurement Authority	Director General
Betty Sombe	Zambia Public Procurement Authority	Board Secretary
Shadreck Shawa	Zambia Public Procurement Authority	Director, Goods and Services
Kelvin Haule	Zambia Public Procurement Authority	Director, ICT
Gloria Ngoma	Zambia Public Procurement Authority	Acting Director, Inspections and Standards
Charles Ngosa	Zambia Public Procurement Authority	Director, Finance
Auditor-General Office		
D.K. Mendamenda	Office of the Auditor General	Deputy Auditor General-CSD
R.M. Chilapula	Office of the Auditor General	Deputy Auditor General – A&C
E. Kabwe	Office of the Auditor General	Senior Accountant
M.S. Mutondo	Office of the Auditor General	Principal Auditor – Quality Control
Parliament		
Doris K. Mwiinga	National Assembly of Zambia	Clerk
Highvie Hamududu	National Assembly of Zambia	Chairperson, Committee on Estimates
Vincent Mwale	National Assembly of Zambia	Chairperson, Public Accounts Committee
Stephen M. Kateule	National Assembly of Zambia	Principal – Committees
Stephen Chiwota	National Assembly of Zambia	Assistant Committee Clerk, PAC
Simon Mtambo	National Assembly of Zambia	Assistant Committee Clerk, Estimates
Provincial Administrations and Districts		
Bornwell Njunga	Lusaka Provincial Administration	Acting Assistant Secretary
Lukwesa Kaemba	Lusaka Provincial Administration	Chief Planner
Tiszah Katowa	Lusaka Provincial Administration	Planner
Davison Mapiza	Lusaka Provincial Administration	Acting Chief Planner
Ozirior Siabalima	Lusaka Provincial Administration	Senior Planner
Esnart Simunchembu	Lusaka Provincial Administration	Senior Planner
Joseph Zulu	Lusaka Provincial Administration	Accountant
Stephen M. Jere	Lusaka Provincial Administration	Accountant
Nathaniel B. Miti	Lusaka Provincial Administration	Accountant
James Mwape	Lusaka Provincial Administration	Accountant
Praxedas Kadingi	Lusaka Provincial Administration	Accounts Assistant
Paul Chilembo	Lusaka Provincial Administration	Accounts Assistant
Donolan Mwape	Lusaka Provincial Administration	Accounts Assistant
Lucia Sianga	Lusaka Provincial Administration	Accounts Assistant
Justin M. Mukanda	Lusaka Provincial Administration	Internal Auditor

Name	Organisation	Position
Stanslaus Mutale	Chongwe District	Acting District Commissioner
Provincial Administrations and Districts		
Paul T. Kasaswe	Chongwe District	District Officer
Mukanga Lubilo	Chongwe District	Assistant Social Welfare Officer
Rannel Ngoma	Chongwe District	District Officer
Joanne M. Lupenga	Chongwe District Health Management Team, Ministry of Health	Accounts Assistant
Longa Malama	Chongwe District	District Building Officer
Zamiwe Mbewe	Water Affairs, Chongwe District	District Water Officer
Lombe Makasa	Buildings, Chongwe District	Buildings Technician
Sharon Mtonga	Chongwe District	District Community Development Officer
Chrispin Moonga	Ministry of Agriculture and Livestock, Chongwe District	Accounts Assistant
Teddy Makala	Ministry of Education, Chongwe District	Accounts Assistant
Christopher Mulala	Chongwe District	Accountant
Ngoma Mangani	Ministry of Education, Chongwe District	Accounts Assistant
Lubinda Mulemwa	Ministry of Education, Chongwe District	Planning Officer
Barbara Nchimunya	Choma District	Accounts Assistant
Grace Ngulube	Kafue District	District Commissioner
Azele Chulu	Kafue District	Acting District Administrative Officer
Martin Chitoshi	Kafue District Education Board	Accounts Assistant
Chishimba Sydney	Kafue District Education Board	Planner
Namuchimba Christine	Kafue District	Accountant
Chadewa B. Mubiana	Ministry of Agriculture and Livestock, Kafue District	Assistant Accountant
Luapula Pasmore	Kafue District Council	Planning Officer
Jones C. Tembo	Kafue District Council	District Treasurer
C. Shapompola	Ministry of Health, Kafue District	Assistant Accountant
Baloyi Tisiyenji	Ministry of Health, Kafue District	Planner
Linda Siwale	Southern Provincial Administration	Chief Planner
Chiwaya Lytone	Southern Provincial Administration	Assistant Accountant
Muchele A. Sialwidi	Southern Provincial Administration	Senior Planning Officer
Foster Mwanza	Southern Provincial Administration	Accountant
Mubanga C. Mulenga	Southern Provincial Administration	Assistant Accountant
Imasiku Mukubesa	Southern Provincial Administration	Assistant Internal Auditor
Muzoka Hameja	Southern Provincial Administration	Accountant
Briven Chishala	Southern Provincial Administration	Procurement Officer
Provincial Administrations and Districts		
Bergin Kanungo	Southern Provincial Administration	Assistant Accountant
Yapulani Chunga	Ministry of Agriculture, Southern Province	Policy and Planning
Victor Silavwe	Ministry of Agriculture, Southern Province	Provincial Biologist

Name	Organisation	Position
Golden Nyambe	Choma District	District Commissioner
Alex Mutale	Ministry of Health, Choma District	Accountant
Sikaona Chitunga	Ministry of Health, Choma District	Planner
Nelson Mhango	Department of Physical Planning and Housing, Choma District	Planning Assistant
Lucy Mwiinde	Monze District	District Commissioner
Mwense Dedu	Monze District Council	District Treasurer
Musonda Mulenga	Monze District	Accountant
Nsabata Anita Mweene	District Education Board, Monze	Assistant Accountant
Nelson Siavwapa	Monze Mission Hospital	Accounts Assistant
Revenue Appeals Tribunal		
C.S. Mutambo	Revenue Appeals Tribunal	Registrar
Catherine Chola	Revenue Appeals Tribunal	Accountant
Tsute M. Mwale	Revenue Appeals Tribunal	Administrative Secretary
Civil Society Organisations		
Goodwell Lungu	Transparency International Zambia	Executive Director
Donors		
Ms. Anouk Rutter	DFID	Governance Advisor
Ms. Clair Harris	DFID	Economic Advisor
Ms. Stefanie Peters	KFW/GDC	Senior Program Manager
Cetty Misale	KFW/GDC	Financial Specialist
Patricia Palale	World Bank	Public Management Specialist
Wedex Ilunga	World Bank	Senior Procurement Specialist
Mr. Anwar Ravat	World Bank	Advisor, Mining
Mr. P.K. Subramanian	World Bank	Lead Financial Management Specialist
Chilambwe Lwao	European Union	Program Officer, PSD
Mothabi Matila	Principal Macroeconomist	African Development Bank
Jan Isaksen	Norwegian Embassy	Country Economist
Kati Manner	Embassy of Finland	Counsellor
Anne Anamela	Embassy of Ireland	Program Officer