

# ZAMBIA



**PEFA  
2017**

## Report on the Evaluation of the Public Financial Management System of Zambia



Based on Public Expenditure and Financial Accountability  
(PEFA) Framework 2016

Government of the  
Republic of Zambia  
Ministry of Finance



**WORLD BANK GROUP**



**KFW**

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## Report on the Evaluation of the **PUBLIC FINANCIAL MANAGEMENT SYSTEM OF ZAMBIA** Based on Public Expenditure and Financial Accountability (PEFA) Framework 2016

November 2017

A joint project of the Government of the Republic of Zambia and the World Bank supported by the cooperating partners from the Government of the United Kingdom, Germany and Finland through the Public Financial Management Reform Program Multi Donor Trust Fund.

# PEFA Assessment Report of the Republic of Zambia



Government of the Republic of Zambia

Public Financial Management Reform Program

Report on the Evaluation of the  
Public Financial Management System of Zambia  
Public Expenditure and Financial Accountability (PEFA) Assessment 2017

November 2017

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK**'.

**PEFA Secretariat**  
**November 6, 2017**

## **CURRENCY AND EXCHANGE RATES**

### **Fiscal Year**

January 1 - December 31

### **Currency Equivalents**

(as of October 17, 2016,)

Currency Unit = Zambian Kwacha (K)

**US\$1 = K9.9075**

## Acronyms & ABBREVIATIONS

<b>ABB</b>	Activity-Based Budget	<b>ICT</b>	Information and Communication Technology
<b>ACL</b>	Audit Command Language	<b>IDC</b>	Industrial Development Corporation
<b>AfDB</b>	African Development Bank	<b>IDM</b>	Investment and Debt Management Department of the Ministry of Finance
<b>AFROSAI-E</b>	African Organization of Supreme Audit Institutions - English Speaking	<b>IFMIS</b>	Integrated Financial Management Information System
<b>AGA</b>	Autonomous Government Agency	<b>IIA</b>	Institute of Internal Auditors
<b>BOZ</b>	Bank of Zambia	<b>IIAG</b>	Ibrahim Index of African Governance
<b>CDF</b>	Constituency Development Fund	<b>IMF</b>	International Monetary Fund
<b>CIT</b>	Corporate Income Tax	<b>IPSAS</b>	International Public Sector Accounting Standards
<b>COFOG</b>	Classification of the Functions of Government	<b>IT</b>	Information Technology
<b>CSD</b>	Central Security Depository	<b>KfW</b>	Kreditanstalt für Wiederaufbau
<b>DFID</b>	Department for International Development	<b>LGA</b>	Local Government Authority
<b>DMFAS</b>	Debt Management and Financial Accountability System	<b>LGEF</b>	Local Government Equalization Fund
<b>DOMT</b>	Domestic Taxes Division	<b>M&amp;E</b>	Monitoring and Evaluation
<b>DRU</b>	Debt Recovery Unit of ZRA	<b>MDTF</b>	Multi-Donor Trust Fund
<b>DSA</b>	Debt Sustainability Analysis	<b>MLGH</b>	Ministry of Local Government and Housing
<b>EDF</b>	European Development Fund	<b>MoE</b>	Ministry of Education
<b>eGPS</b>	Electronic Government Procurement System	<b>MoF</b>	Ministry of Finance
<b>EMF</b>	Economic Management and Finance Division	<b>MP</b>	Member of Parliament
<b>EU</b>	European Union	<b>MPSA</b>	Ministries, Provinces, and Other Spending Agencies
<b>FISP</b>	Farmer Input Support Programme	<b>NDP</b>	National Development Plan
<b>FMS</b>	Financial Management System	<b>NGO</b>	Nongovernmental Organization
<b>FRA</b>	Food Reserve Agency	<b>OAG</b>	Office of the Auditor General
<b>GAAP</b>	Generally Accepted Accounting Practices	<b>OBB</b>	Output-Based Budgeting
<b>GDP</b>	Gross Domestic Product	<b>PAC</b>	Public Accounts Committee
<b>GFS</b>	Government Financial Statistics	<b>PAYE</b>	Pay as You Earn
<b>GIZ</b>	German Agency for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit)	<b>PE</b>	Personal Emolument
<b>GPS</b>	General Public Services	<b>PEFA</b>	Public Expenditure and Financial Accountability
<b>GRZ</b>	Government of the Republic of Zambia	<b>PEMFA</b>	Public Expenditure Management and Financial Accountability

<b>PFM</b>	Public Financial Management
<b>PFMRP</b>	Public Financial Management Reform Programme
<b>PI</b>	Performance Indicator
<b>PIM</b>	Public Investment Management
<b>PIT</b>	Personal Income Tax
<b>PMEC</b>	Payroll Management and Expenditure Control Systems
<b>PPA</b>	Public Procurement Act
<b>PPP</b>	Public-Private Partnership
<b>PPR</b>	Public Procurement Regulations
<b>PS-EMF</b>	Permanent Secretary of the Economic Management and Finance Division
<b>PSMD</b>	Public Service Management Division
<b>PSRP</b>	Public Service Reform Programme
<b>QAIP</b>	Quality Assurance and Improvement Program
<b>RAT</b>	Revenue Appeals Tribunal
<b>RDC</b>	Recurrent Departmental Charge
<b>R-SNDP</b>	Revised Sixth National Development Plan
<b>RTGS</b>	Real-Time Gross Settlements System
<b>SAC</b>	State Audit Commission
<b>SAI</b>	Supreme Audit Institution
<b>SO</b>	Standing Order
<b>SOE</b>	State-Owned Enterprise
<b>ST</b>	Secretary to the Treasury
<b>TADAT</b>	Tax Administration Diagnostic Assessment Tool
<b>TPIN</b>	Taxpayer Identification Number
<b>TSA</b>	Treasury Single Account
<b>USAID</b>	U.S. Agency for International Development
<b>VAT</b>	Value Added Tax
<b>ZICA</b>	Zambia Institute of Chartered Accountants Zambia Public Procurement Authority
<b>ZRA</b>	Zambia Revenue Authority

**ACRONYMS AND ABBREVIATIONS****PREFACE****EXECUTIVE SUMMARY**

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The 2016 Public Expenditure and Financial Accountability (PEFA) assessment was carried out jointly by the assessment team comprising of officials of the Government of the Republic of Zambia and the World Bank. The assessment is undertaken under the Public Financial Management Reform Program Phase I of Government of Zambia, financed by multi donor trust fund of United Kingdom, represented by the Department for International Development [DFID], the Government of Germany (*Kreditanstalt für Wiederaufbau [KfW]*) and the Government of Finland, and administered by the World Bank.

The objective of the assessment was to identify areas of strengths and weaknesses in the Government's Public Financial Management (PFM) system. The assessment process was formally launched by the Minister of Finance, Honorable Felix C. Mutati, Member of Parliament (MP), who stated that the capacity of Government to manage public resources was central to the ability to deliver public services to the people of Zambia and therefore there was no choice, but to succeed in implementing the PFM reforms.

The PEFA Assessment was managed through the high level Joint Government Donor Committee, chaired by Mr Fredson Yamba, Secretary to the Treasury and co-chaired by Mr Frank Hofmann, Head of Cooperation, German Embassy. The assessment process was guided under the leadership of Mr Mukuli Chikuba, Permanent Secretary, Economic Management and Finance Division (EMF), Ministry of Finance (MoF).

The assessment was jointly led by Mr Mumba Chanda, Head of PFM Coordination Unit and Deputy Accountant General - LG, Ministry of Finance and Mr Srinivas Gurazada, Sr Financial Management Specialist and Task Team Leader, World Bank. The PEFA assessment team comprised staff from the Budget Office, the Accountant General's Office, Investment and Debt Management, Internal Audit, Office of the Auditor General (OAG), ZRA, ZPPA and staff and consultants from the World Bank. The PEFA Assessment team acknowledges and appreciates the excellent cooperation extended by Government of Zambia and all other stakeholders, information providers, peer reviewers, MDTF Donors, other development partners including PEFA Secretariat, IMF, European Union, GIZ & USAID, civil society agencies.

Zambia benefitted immensely from use of PEFA framework for defining and aligning its PFM reforms. The cycle of PEFA assessments of which this is the fourth (earlier assessments were done in 2005, 2008, 2012) have supported successive PFM reform programs. The results of these programs are reflected in the improvements in various segments of the PFM cycle. PFM reforms rank high on the list of priorities of the Government. The ongoing Public Financial Management Reform Program (PFMRP) Phase I is aimed at ensuring that there is fiscal discipline, transparency, accountability, and strengthened internal controls in the mobilization and use of public resources, as well as efficiency and effectiveness in carrying out Government operations and programs. This PEFA assessment will also help with the formulation of Phase II of PFMRP as well as several other reforms programs of the Government.

The main report is structured as follows: **Chapter 1** is an introduction explaining the context, purpose, and process of preparing the report, specifying the institutional coverage; **Chapter 2** provides an overview of relevant country-related information that provides the context underpinning the indicator results and the overall public financial management (PFM) performance; **Chapter 3** provides the detailed assessment of performance in terms of the seven pillars of the PFM system. It provides analysis and measurement of results in terms of the 31 performance indicators (PIs) of PFM performance; **Chapter 4** includes the broad conclusions from the analysis of PFM systems. It also identifies the most important system weaknesses in that respect and contains a section on the internal control framework. **Chapter 5** provides an overview of government initiatives to improve PFM performance summarizing the approach to PFM reform, including the institutional factors that are likely to have an impact on the planning and implementation of reforms. **Annex 1** provides summary tables of PI scores assessed using the 2016 Public Expenditure and Financial Accountability (PEFA) assessment framework. **Annex 2** provides a summary of observations on the internal control framework. **Annex 3** lists the sources of information and related supporting work. **Annex 4** contains the PEFA assessment scores comparing 2012 and 2016 Assessments using 2011 PEFA framework. **Annex 5** contains a PEFA Assessment Management organisation. Annex 6 includes the data tables used for the PEFA assessment.

## Assessment Purpose, Coverage, Management, and Timing

The Government of the Republic of Zambia (GRZ) sought a repeat PEFA assessment on the new 2016 Framework as part of its program of assessments since PEFA began in 2005. Its purposes are:

- Providing a baseline for future assessment of PFM performance using the PEFA Framework for assessing PFM and related guidance;
- Establishing and explaining the level of change in performance based on the PEFA indicator scores by comparison to the results found during the previous assessment to provide a clear picture of specific changes in performance since the 2012 assessment;
- Providing a credible basis for the preparation of the next PFM reform strategy (2017–2019). Where weaknesses remain or new gaps are identified, provide sufficient information that can be used to identify possible interventions for improved control mechanisms; and
- Identifying progress achieved and providing a revised baseline for the government's PFM reform strategy and the programs that support PFM reform strategy.

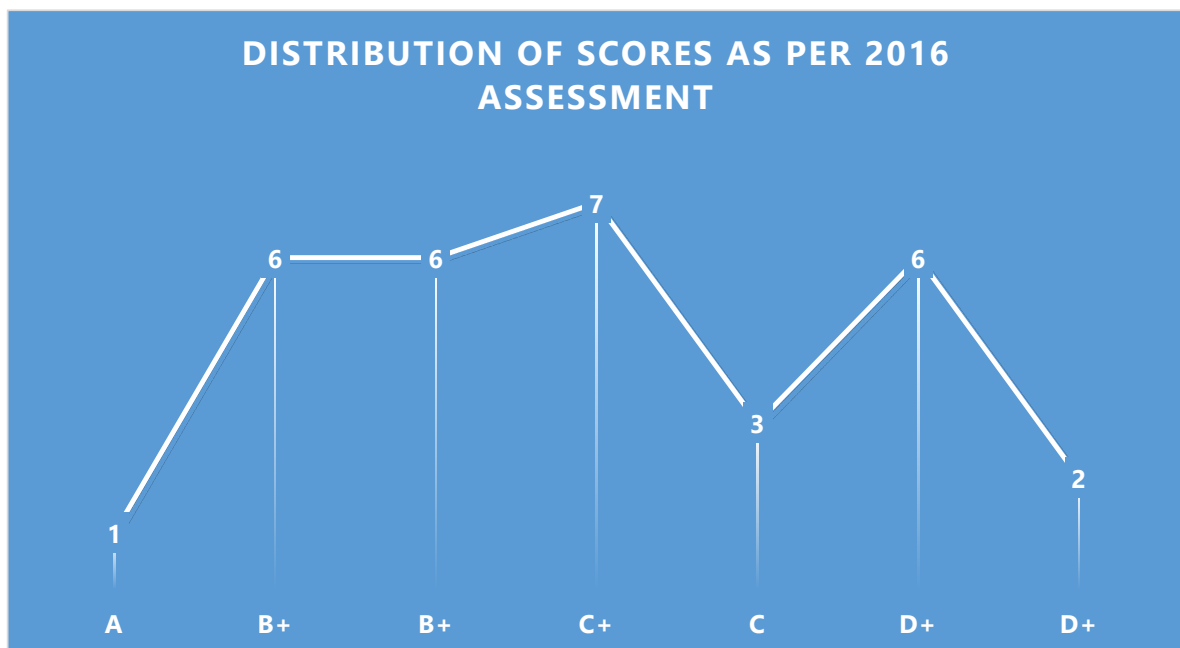
Public financial management reforms are presently concentrated at the central level in Zambia. The PEFA Assessment therefore focusses on the Central Government level only.

It covers the budget entities of the central Government level only. It covers the budget entities of the central government, including Ministries, Provinces and other spending agencies (MPSAs). Government functions at the lower levels - District bodies, municipalities and other local councils are outside the scope of this assessment.

The 2016 PEFA assessment is undertaken by GRZ jointly with the World Bank and other development partners. The assessment was conducted by a team of Government officials and World Bank staff and consultants. It followed the PEFA Secretariat recommended methodology with the goal to obtain the PEFA Check quality assurance credentials from the PEFA Secretariat including the required peer review process. The Assessment was conducted under the Government's Zambia Public Financial Management Project Phase I, funded by the multi donor trust fund. The Joint Government Donor Committee (JGDC), chaired by the Secretary to Treasury and co-chaired by the Head of Development Cooperation, German Embassy in Zambia, served as the Steering Committee for this assessment.

### Summary Assessment of PFM Performance

The PEFA Framework has been enabling the GRZ to examine, both at the broad and detailed levels, how each area of its PFM systems is performing and how performance has changed since previous assessments. The first and most important step is to look at the results at the broad level of the seven PFM pillars of the budget cycle. This enables the government to see where reform efforts have not yet enabled the PFM system to reach a satisfactory level. The summary results are given in Table A.



There has been strong performance for almost all the PIs for policy-based fiscal strategy and budgeting, and external scrutiny and audit. However, there has been relatively poor performance for almost all PIs for management of assets and liabilities, and predictability and control in budget execution. Budget reliability, transparency of public finances, and accounting & reporting have more mixed results.

The groundwork of a transparent, well-scrutinized PFM system and a modern budget development process is in place to set up the approved budget outcomes in a well-ordered way. The technology in the accounting system is also well established with the Integrated Financial Management Information System (IFMIS) rolled out to 48 of the 56 MPSAs. The processes for management of assets and liabilities and for budget execution involve large numbers of public sector staff working throughout Zambia to provide service delivery using the resources that are allocated. Supporting them to do this effectively and within their budget allocations requires a strong enabling framework supported by immediate reliable information on available budget. PIs associated with reporting have been affected by residual manual accounting systems that do not interface with the much more efficient IFMIS.

The most significant result from the assessment aspect of budget outcomes has been the conclusion in PI-2 that budget certainty through ceilings is eroded by variations during the year; and overspending allocations in some departments has been endemic while for others it has been endemic underspending. However, the health and education sectors have generally spent close to budget. These well-established patterns suggest that the original budget allocations have not been set properly to achieve budget outcomes. The impact of PFM weaknesses falls on the allocation of resources and on service delivery. The current budget preparation process has not assured the approved strategic allocation of resources. The continuing deficiencies in internal control systems and financial reporting identified by the Auditor-General raise fiscal risks and the possibility of wastage and leakage of funds, thereby detracting from maximum operational efficiency in the usage of resources.

Fiscal discipline was strong at the aggregate level but needs more control at the expenditure head level as compositional outturns were not consistent with the approved budget. The commitment control system was not working as intended as excess expenditure was incurred. Audit queries on individual transactions were indicative of inadequate internal controls according to the recent Public Accounts Committee (PAC) report .

The PIs on management of assets and liabilities introduced by the 2016 PEFA Framework revealed weaknesses in public investment management as no framework existed for the coordination, appraisal, screening, and selection of major public investment projects. This has resulted in significant rise in costs and liabilities accruing to the government. A department has been established under the Ministry of National Development Planning (MNDP) to address the risks to fiscal discipline through the development of the public investment management framework. Public asset management monitoring was also weak and the Asset Policy was still in development. A joint IMF-World Bank Public Investment Management Assessment (PIMA) was conducted in February 2017, to provide baseline to reforms on Public Investment Management. Debt management was compromised by an expired debt management strategy. A draft debt management procedures manual had been prepared but not finalized.

Strategic allocation of resources was negatively affected as evidenced by the variability in expenditure composition outturn. As such, service delivery was affected by reduced releases for some expenditure heads. Further, predictability of in-year resource allocation was inadequate in that monthly rather than quarterly funding profiles were made available to MPSAs. The in-year budget execution reports were neither timely nor user friendly. In addition, some managers did not have adequate information on their budget position as there were still some manual accounting processes in place that did not interface with the IFMIS, thereby affecting their ability to produce timely reports.

## Impact of PFM reforms on the three main budgetary outcomes and the way forward

The PEFA Assessment focused on the three main fiscal and budgetary outcomes which are – (i) aggregate fiscal discipline, (ii) strategic allocation of resources and (iii) efficient service delivery.

According to the results of this 2016 assessment of the performance of the PFM systems, the achievement of the three main fiscal and budgetary outcomes continue to be affected by several substantial weaknesses.

**Aggregate fiscal discipline** can be improved by serious strengthening of budget approval and execution processes. These processes presently result in very substantial variations between budget and actual expenditure for many administrative heads and for some economic classifications, especially subsidies (PI-2); and substantial growth in already excessive expenditure arrears (PI-22). Steps are available to remedy these defects. Improvements are needed in the budget challenge processes to ensure that budget estimates represent the accurate or close to accurate figures required by the sectors. Enactment of the Planning and Budgeting Bill is needed for strict adherence to the constitutional provisions on funding and improved expertise is needed for officers to properly use the IFMIS for budgeting and coding. Control of arrears is impeded by poor monitoring systems but the full implementation of the Treasury Single Account and additional functionality in the IFMIS to capture all expenditure arrears will enable ready response by management.

**Strategic resource allocation** weaknesses result in fiscal space being constrained by spending on general public services; and progress since 2012 in reducing the GDP proportion from 68% to 33% in 2014 reversed to 42% in 2015. As with fiscal discipline the budget preparation processes must enable competing claims to be assessed transparently and the budget execution processes must deliver on the decision; so, the same weaknesses apply and the same remedies are needed for the budget process. Poor public transparency for fiscal information (PI-9) is also a concern here as information on the use of resources in line with government publicized priorities is needed for the legislature, civil society and the media to assess the extent to which the government is implementing its policy priorities. Incomplete rollout of the IFMIS was delaying public availability of budget execution reports. Such delays limit the capacity of the legislature, civil society and media to assess the extent to which the government is implementing its policy priorities.

Rollout of the IFMIS to deconcentrated sites and enactment of the Planning and Budgeting Policy and associated legislation will strengthen relevant de-jure and de-facto procedures for budget execution reporting.

*Efficient service delivery* is heavily dependent on effective planning and oversight mechanisms. Predictability of resource flows is important for planning and performance for these PIs (PI-7 Transfers to subnational governments, PI-16 Medium term perspective in expenditure budgeting, and PI-21 Predictability of in-year resource allocation) was reasonable. Oversight by management, internal audit, external audit, and the Legislature is extensive and reports showed some limitations in internal controls over payment rules and procedures for expenditures. There are programs in place for capacity building in internal and external audit to improve internal controls.

## Main Performance Changes since 2012 PEFA Assessment

With the introduction of the PEFA Framework 2016, this assessment will be the last that makes an assessment that is comparable with the three previous assessments. Therefore, it is appropriate to review progress made over the 12-year period for the 6-pillar PEFA structure. Going forward, the 2016 assessment report will provide the new baseline on the revised 7-pillar structure including the new Pillar 3 - Management of assets and liabilities. Table B compares performance ratings for the PEFA assessments of pillars using the 2011 framework. Section 4.4 provides a detailed assessment by PI and dimension.

**Table B: Distribution of Ratings by Pillar (measured by 2011 PEFA Framework)**

Core Pillars of PFM Performance	2005 Ratings		2008 Ratings		2012 Ratings		2016 Ratings	
	A/B	C/D	A/B	C/D	A/B	C/D	A/B	C/D
Credibility of the budget	1	3	3	1	0	4	2	2
Comprehensiveness and transparency	2	4	4	2	2	4	5	1
Policy-based budgeting	1	1	1	1	2	0	1	1
Predictability and control in budget execution	1	8	2	7	2	7	2	7
Accounting, recording and reporting	0	4	2	2	2	2	2	2
External scrutiny and audit	1	2	1	2	1	2	2	1
<b>Total</b>	6	22	13	15	9	19	14	14

Table B on changes in performance showed that the PFM system in 2005 did not perform well with most indicators being rated C or D. Progress made by 2008 had declined by 2012, but recovered in 2016 to a position where half the indicators are performing at A or B levels.

The most significant improvement since 2012 has been for the aggregate expenditure outturn, and the transparency of transfers to subnational governments but others have also improved as shown in the Table A4.2 in Annex 4 There have also been minor declines in some indicators. In particular, the following were observed:

- Aggregate expenditure outturn performance improved from D to B due to a significant reduction in deviations between aggregate budgeted and actual expenditures. The 2012 assessment had deviations of 11 percent, 19 percent, and 32 percent for the 3 years 2009, 2010, and 2011. The 2016 assessment had deviations for 2013, 2014, and 2015 were 7 percent, 6 percent, and 15 percent of the budget.
- Transfers to subnational governments improved from C to B+ because the GRZ introduced a single formula based Equalization Grant in place of a number of earlier transfer types.
- Revenue administration deteriorated from B to C+ due to high uncollectable arrears.
- Procurement management improved from D+ to C+ through an improved complaints handling process.
- Annual financial reports by the GRZ has improved from C+ to B+ through more timely submission of financial statements for audit.

**Table C below provides the summary of the 2016 assessment based on the 2016 PEFA Framework.**

Pillars and PIs		Scoring Method	2016				
			Dimension Rating				Overall Score
			(1)	(2)	(3)	(4)	
<b>Pillar I. Budget reliability</b>							
PI-1	Aggregate expenditure outturn		B				B
PI-2	Expenditure composition outturn	M1	C	D	A		D+
PI-3	Revenue outturn	M2	A	D			C+
<b>Pillar II. Transparency of public finances</b>							
PI-4	Budget classification		B				B
PI-5	Budget documentation		B				B
PI-6	Central government operations outside financial reports	M2	B	B	D		C+
PI-7	Transfers to subnational governments	M2	B	A			B+
PI-8	Performance information for service delivery	M2	C	C	C	C	C
PI-9	Public access to fiscal information		D				D
<b>Pillar III. Management of assets and liabilities</b>							
PI-10	Fiscal risk reporting	M2	D	C	D		D+
PI-11	Public investment management	M2	D	D	D	C	D
PI-12	Public asset management	M2	C	D	C		D+
PI-13	Debt management	M2	B	C	D		C



**Table C below provides the summary of the 2016 assessment based on the 2016 PEFA Framework.  
(cont.d)**

Pillars and PIs		Scoring Method	2016				
<b>Pillars IV-VII. BUDGET CYCLE</b>							
<b>IV. Policy-based fiscal strategy and budgeting</b>							
PI-14	Macroeconomic and fiscal forecasting	M2	B	B	B		B
PI-15	Fiscal strategy	M2	B	A	A		A
PI-16	Medium-term perspective in expenditure budgeting	M2	A	A	C	C	B
PI-17	Budget preparation process	M2	C	A	A		B+
PI-18	Legislative scrutiny of budgets	M1	B	B	A	B	B+
<b>V. Predictability and control in budget execution</b>							
PI-19	Revenue administration	M2	A	B	D	D	C+
PI-20	Accounting for revenue	M1	B	A	A		B+
PI-21	Predictability of in-year resource allocation	M2	C	B	C	C	C+
PI-22	Expenditure arrears	M1	D	B			D+
PI-23	Payroll controls	M1	A	B	A	C	C+
PI-24	Procurement management	M2	D	B	C	B	C+
PI-25	Internal controls on non-salary expenditure	M2	A	C	C		B
PI-26	Internal audit	M1	C	B	C	C	C+
<b>VI. Accounting and reporting</b>							
PI-27	Financial data integrity	M2	D	C	C	B	C
PI-28	In-year budget reports	M1	C	D	C		D+
PI-29	Annual financial reports	M1	A	B	B		B+
<b>VII. External scrutiny and audit</b>							
PI-30	External audit	M1	A	B	C	D	D+
PI-31	Legislative scrutiny of audit reports	M2	C	A	B	A	B+

## Ongoing and Planned PFM Reform Agenda

The ongoing reforms on PFM are summarised in Chapter 5; many reforms have been implemented over the last few years while others are still in the process of being implemented. The GRZ recognizes that the reform process is not yet complete and remains focussed on the implementation of the PFM Reforms. The commitment of GRZ to PFM reforms with highest level of attention at senior leadership level is critical for the success of the reforms. As far as possible, existing government structures and responsibilities are used for implementation of the PFMRF by mainstreaming the arrangements and ensuring sustainability. In addition to PFM Reform Project Phase I and several other bilateral support initiatives of development partners, European Union is working with the Government towards a PFM reform project to support some of the areas currently not supported.

GRZ plans to develop the PFM Reform Strategy of the government informed by the PEFA Assessment. Government plans to develop the Phase II of the PFM Reform Project based on the results of the new PFM Reform Strategy.

Chapter 1 outlines the context and purpose of the public financial management (PFM) assessment, the process by which the assessment report was prepared, and the methodology used in undertaking the assessment.

## 1.1 Rationale and purpose of the assessment

The Government of Zambia (GRZ) has been implementing public financial reforms since 2000. The Public Expenditure and Financial Accountability (PEFA) framework has been adopted as the basis for measuring progress. GRZ conducted PEFA assessments in 2005, 2008 and 2012. The 2012 assessment was based on data covering the period 2009–2011 and the PFM status as of May 2013. This assessment showed improvements in financial reporting, tax administration and internal audit, but significant slippages in budget credibility and in the accessibility to fiscal information. Since then, the GRZ has continued its reform through a revised PFM Reform Strategy aimed at improving efficiency, effectiveness, accountability and transparency in the use of public resources.

The PEFA is carried out as an objective, indicator-led assessment of the national PFM system in a concise and standardized manner. PEFA assessment establishes the current status of PFM performance that correlates with an updated understanding of the overall fiduciary environment and, identifies the developments that have taken place since 2012. It provides a credible basis for the revision of current PFM Reform Strategy of the Government of Zambia to prepare an updated PFM Reform strategy (2017–2019).

By applying the 2016 PEFA Performance Management Framework, the work will help provide a baseline for future assessments of PFM performance. This can take into account remaining weaknesses as well as new gaps identified to establish new improvement mechanisms.

## 1.2 Assessment management and quality assurance

The PEFA assessment 2016 is undertaken by GRZ jointly with the World Bank and other development partners. The assessment was conducted through the Public Financial Management Reform Program (PFMRP), with a team of Government officials and World Bank staff and consultants. The government team included staff from the (i) Office of the Accountant General, (ii) Budget Office, (iii) Investment & Debt Management Department, (iv) Controller of Internal Audit, (v) Office of the Auditor General, (vi) Ministry of Development Planning, (vii) Zambia Revenue Authority, (viii) Zambia Public Procurement Authority, and (ix) Public Financial Management Reform Unit. The Joint Government Donor Committee (JGDC) operated as the Steering Committee for the assessment. The Technical Team from the Government was led by Mumba Chanda (Deputy Accountant General – Local Government & PFMRP Coordinator and included Alice Sievu (Chief Accountant, PFMRP - Office of the Accountant General), Clara M.M. Mazimba (Principal Accountant PFMRP Unit – Office of the Accountant General), Hector Sampa (Principal Accountant, Office of the Accountant General), Loveday Hamutunda (Senior Accountant

-Office of the Accountant General), Medson Moyo (Budget Analyst – Budget Office), Kapembwa N. Sikombe (Acting Senior Economist – Budget Office), Wamupu Akapelwa (Deputy Director – Ministry of National Development Planning), Francis Mwanza (Internal Auditor – Internal Audit Department), Hope C. Lwenje (Internal Auditor – Internal Audit Department), Ethel Kayonde (Zambia Public Procurement Authority), Chuma Chuma (Office of the Auditor General) and Tilson Musowoya (Zambia Revenue Authority).

The technical team from the World Bank was led by Srinivas Gurazada (Sr Financial Management Specialist and Task Team Leader) and included Michael Jacobs (International Consultant), Ntazi Sinyangwe (Consultant), Chitundu Mwangi (Consultant), Khuram Farooq (Senior Financial Management Specialist), Gregory Smith (Senior Country Economist), Zivanemoyo Chinzara (Economist), Wedex Ilunga (Senior Procurement Specialist), MacDonald Nyazvigo (Senior Finance Assistant), Francis Zulu (PFM Intern), and Kutemba Kambole (Programme Assistant).

## **Box 1.1: Assessment Management and Quality Assurance Arrangements**

### **PEFA Assessment Management Organization**

Oversight team: The JGDC comprising members from the Ministry of Finance (MoF), ZRA, ZPPA, German Embassy, Finnish Embassy, World Bank, KfW Germany, and DFID.

The JGDC is chaired by the Secretary to the Treasury (ST) and Head of Development Cooperation German Embassy.

### **Review of the Concept Note**

- Draft concept note was reviewed between June 8 and June 17, 2016. The reviewers were as follows:
  - (a) PEFA Secretariat
  - (b) IMF
  - (c) DFID
  - (d) Manoj Jain, Lead Financial Management Specialist - World Bank
  - (e) Simon B. Chenjerani Chirwa, Senior Procurement Specialist - World Bank
  - (f) Saeeda Sabah Rashid, Senior Public Sector Specialist - World Bank
  - (g) Tuan Minh Lee, Senior Economist - World Bank
  - (h) Comments were also received from the EU, U.S. Embassy, U.S. Agency for International Development (USAID), GIZ, and KfW
- Final concept note was approved on August 6, 2016 (Concept review meeting chaired by Ina Ruthenberg, Country Manager, World Bank)

### **Field mission and preparation of draft report**

- Training for PEFA Assessment team conducted by Head of PEFA Secretariat 3-5 October 2016
- Field mission for PEFA Assessment between 10-28 October 2016
- Presentation of preliminary findings of mission to JGDC: October 28, 2016 (Co-chaired by Secretary to Treasury and Head of Development Cooperation Germany).
- Preparation of first draft report between November – December 2016

## Review of the assessment report

- Approval of first draft for peer review: February 26, 2017
- Peer review and circulation for comments by other stakeholders: February 27 – April 23, 2017
- Draft was shared with all the partners to whom the concept note was shared earlier. Draft was also circulated across the World Bank team's Africa team of Governance Global Practice and the Zambia Country team, for feedback in accordance with standard practice.
- Apart from all the internal and external peer reviewers, comments on the final draft were also received from;
  - a. Tuan Minh Le (Senior Economist – World Bank)
  - b. Manoj Jain (Lead Financial Management Specialist – World Bank, New Delhi)
  - c. Saeeda Sabah Rashid (Senior Public Sector Specialist – World Bank, Manila)
  - d. Simon B. Chenjerani Chirwa (Senior Procurement Specialist – World Bank)
  - e. PEFA Secretariat (Washington DC)
  - f. International Monetary Fund
  - g. GIZ
  - h. DFID
  - i. European Union
- Decision Review meeting: April 24, 2017 (Decision review meeting chaired by Ina Ruthenberg, Country Manager, World Bank and was also participated by Hisham Waly, Practice Manager)
- Joint Government Donor Committee meeting for presentation of final draft: May 4, 2017 (Co-chaired by Secretary to Treasury and Head of Development Cooperation Germany).

### ***Issue of PEFA Check***

The individuals participating in the management, operational, and quality assurance arrangements are presented in Annex 4. A cross-sectoral technical team from World Bank supported the assessment by the GRZ. The reviewers of the concept note and the assessment report, both draft and final, comprised a diverse group of experts and PFM professionals from development agencies. Following requests for comments on the concept note and draft report, comments were received from external peer reviewers that included the PEFA Secretariat, IMF, and DFID. Comments on the concept note and draft report were also received from representatives of the European Union and GIZ. U.S. Embassy & USAID and KfW (Germany) provided comments on the concept note.

The core assessment team was supported by a development partner advisory team consisting of (i) Stephan Neu, KfW, (ii) Mauri Starkman, Finland, (iii) Emeline Dicker, DFID, (iv) Resident Representative, IMF, (v) Sophie Autie, EU and (vi) Doris Nueckel, GIZ.

The assessment was fully financed under the Zambia Public Financial Management Project, funded by the multi donor trust fund financed by United Kingdom, represented by DFID, Germany represented by KfW and Finland, and administered by the World Bank.

### **1.3 Assessment methodology, coverage, and scheduling**

Public financial management reforms are presently concentrated at the central government level in level in Zambia. The PEFA assessment therefore focusses on the Central Government level only. It covers the budget entities of the central government, which includes 17 Ministries, 10 Provinces and 72 other spending agencies, as at 2015.

Social Security funds covered are those that are managed by the Public Service Pension Funds (PSPF), National Pension Scheme Authority (NPSA) and those operated by line Ministries such as Ministry of Community Development and Social Services, Ministry of Agriculture and Ministry of Gender and are part of the budgets of these entities. Public corporations are part of the scope and are covered under Pillar III - Management of Assets and Liabilities.

Government functions at the lower levels - district bodies, municipalities and other local councils are outside the scope of this assessment. Zambia does not have a sovereign wealth fund.

The assessment team carried out extensive data collection and consulted with a wide range of stakeholders, including government officials and development partner representatives. As a predominantly self-assessment exercise, the GRZ PEFA assessors were allocated performance indicators (PIs) to assess that they were relevant to their responsibilities and functional areas and had direct access on a working basis with many data sources and with their colleagues in the relevant MPSAs. Some of the data collection involved other MPSAs, and the list of persons consulted during formal meetings and main information sources are provided in Annex 3. Sources are provided for all data tables, figures, and boxes, and specific references are provided in the main text, especially in Chapter 3.

The data cutoff date of the assessment was September 30, 2016. Data gathering for the assessment primarily took place during October 2016. Completed fiscal years are 2013, 2014, and 2015, the latest 3 years for which audited reports are available. The last completed fiscal year is 2015, and the latest budget submitted to legislature and enacted is for the calendar year 2016. The analyses of the PIs in Chapter 3 are based on the latest data available in each case. The coverage has been clearly indicated under each PI description.

The assessment was conducted in order of the following stages and schedule:

(a)	Briefing to the JGDC	May 2016
(b)	Request for nomination of focal persons	May 2016
(c)	Concept note approval	August 6, 2016
(d)	Launch and training workshop	October 3–4, 2016
(e)	First round of data gathering	October 5–28, 2016
(f)	Presentation of initial findings to the PEFA Steering Committee	October 28, 2016
(g)	Draft report under peer review	February 27 – April 23, 2017
(h)	Decision review meeting at World Bank	April 24, 2017
(i)	Presentation to Steering Committee (JGDC)	May 4, 2017
(j)	Issuance of PEFA check by PEFA Secretariat	November 6, 2017
(k)	Publishing and dissemination of reports	6 December 2017

To place the PFM performance measurement in a wider context, this chapter provides information on core characteristics of the government's PFM system. This covers country economic, budgetary, and fiscal trends, the structure of the public sector, legal and institutional framework for PFM, and the government's internal control framework.

Zambia for many years generally enjoyed political stability and had enormous economic potential, now grounded in its rich endowment of natural resources. Zambia's governance indicators present an average positive picture. According to the Ibrahim Index of African Governance (IIAG) in 2016 that provides an annual assessment of the quality of governance in African countries, Zambia is ranked 13 out of 54 countries, with its overall governance score of 58.8 percent. However, Zambia remains one of the least developed countries in Africa, with 75 percent of the population living on less than US\$1.25 a day and a life expectancy of 57 according to the 2016 BTI report. Zambia's landlocked situation is a natural obstacle to economic growth. Conversely, the rate of economic growth has in the recent past included some strength during 2012–2014. This shows that with good economic management and several years of strong economic growth, Zambia can turn around and become a high performing country.

## 2.1 Country economic situation

### *Country context*

Economic performance remained resilient to falling global copper prices between 2012 and 2014, and growth averaged 5.8%. The key drivers of growth were the construction, mining, transport, communications, and tourism sectors. However, growth fell to 2.9% in 2016 as global headwinds (including weak global growth and low copper prices) and domestic shocks intensified (including power outages, low and poorly timed rains, high fiscal deficits which resulted in high inflation and a tight monetary policy).

Zambia's macroeconomic fundamentals were stable for 2012–mid-2015 with the Kwacha remaining relatively stable and inflation remaining at single digit. However, as global and domestic shocks intensified, the Kwacha depreciated by 18 percent in the third quarter of 2015 and a further 35 percent in the fourth quarter of 2015. A depreciating Kwacha quickly sent inflation to double digit in October 2015, and by December 2015 inflation breached the 20 percent mark.

Fiscal policy remained expansionary over the period, with public spending increasing at an annual average rate of 15.5% between 2012 and 2015, and the fiscal deficit widening from 3.2% to 9.4% of GDP in 2015. Fiscal expansion was largely financed by large Eurobond issues in 2012, 2014 and 2015, bridging loans from the central bank



in 2013 and accumulating large spending arrears in 2015. Monetary policy shouldered the burden of stabilizing the Kwacha and moderating inflation. As the currency began depreciating in early 2015, the Bank of Zambia increased the statutory reserve ratio to 14 percent from 10 percent. In August 2015, the statutory reserve ratio was further increased to 18 percent. Further tight monetary policy measures were taken in November 2015 following rapid depreciation of the kwacha and sharp spikes in inflation. These included increasing the policy rate to 15.5 percent from 12.5 percent, increasing the overnight facility rate to 21.5 percent from 18.5 percent as well as restricting access to this facility to just once a week. These measures resulted in low liquidity, high lending rates and to a 1% decline in lending in 2015.

The external sector performance was favorable for most of the period 2012–2014. The trade balance recorded a surplus over this period while the current account was only in deficit in 2013 due to deteriorations in balances on services and primary income. However, in 2015 both the trade balance and current account recorded deficits as exports earnings fell faster than imports. Copper remains the dominant source of export earnings, accounting for 72.1 percent of exports over the period. Gross international reserves breached the US\$ 3 billion in 2012 and 2014, bolstered by the issue of Eurobonds. However, despite the issue of a US\$ 1,500 million, reserves fell to US\$ 2,977 million, drawn-down by the increased fiscal costs of servicing external debt and importing emergency electricity as well as the use of reserves for foreign exchange market intervention. Key socio- and macroeconomic indicator data are summarized in Table 2.1.

	2012	2013	2014	2015 <sup>a</sup>
<b>Population</b>				
Total population	14,145,327	14,580,290	15,023,315	15,473,905
Population growth rate	3.11	3.07	3.04	3.00
<b>National income and prices</b>				
GDP current prices (K, millions)	131,273	151,330	167,053	183,381
GDP at constant prices (K, millions)	110,423	116,009	121,452	125,003
GDP, annual real growth, %	7.6	5.1	4.7	2.9
CPI (annual average), %	6.6	7	7.8	10
Average exchange rate (K/US\$)	5.1425	5.39	6.16	8.62
GDP per capita, (K) at current prices	9,280	10,379	11,120	11,851
GDP per capita, (K) at constant prices	7,806	7,957	8,084	8,078
GDP per capita, (US\$) at current prices	1,805	1,926	1,805	1,375
<b>External sector</b>				
Current account balance (excluding official transfers) (US\$, millions)	1,182.90	-218.4	581.2	-767.7
Current account balance (excluding official transfers) as % of GDP	3.1	0.8	-2.1	-3.6
Capital account balance	223	278	202	81
Financial account balance	1,267.90	276.9	462.6	-278.3
Overall balance of payments	-105.7	247.2	-321.6	432.3
Gross official reserves (end of period)	3,044	2,684	3,078	3,182
Gross official reserves (in months of imports)	3.3	3.1	4.2	4.7
Current account balance (excluding official transfers) as % of GDP	3.1	0.8	-2.1	-3.6
<b>Debt</b>				
Stock of domestic debt, net (end of period), % of GDP	11.5	13.1	14.1	15.0
Total public debt, net of deposits, % of GDP	24.5	25.0	31.8	45.1

## 2.2 Fiscal and budgetary trends

### *Fiscal performance*

Between 2012 and 2015, public expenditure increased at an annual average rate of 15.4 percent in real terms. Fiscal expansion was driven by large public investments in infrastructure, particularly roads, personal emoluments (PEs) (including a 45 percent increase in the public sector wages in 2013), and increased spending on subsidies on fuel and agriculture. Revenue (in real terms) increased at a much slower pace of 6.8 percent per annum during the same period. Accordingly, the fiscal deficit widened to 9.4 percent of GDP in 2015 from a low of 1.8 percent in 2011.

The fiscal deficits have been financed by borrowing. Domestic borrowing averaged 2.3 percent of GDP and included two bridging loans from the central bank in 2013 (K 1,514 million) and 2016 (K 3,183 million). The stock of domestic debt increased from 11.5 percent of GDP in 2012 to 15.0 percent in 2015.

External debt stock sharply increased to 38.7 percent of GDP in 2015 from a low of 13.5 percent in 2012. As a consequence, public debt as a percentage of GDP rose to 52.9 percent in 2015 from 25.5 percent in 2012. During this period, Zambia entered the international capital market to source finance for infrastructure development among others. In 2012, Zambia issued the first sovereign Eurobond of US\$750 million (coupon rate of 5.38 percent), US\$1 billion (coupon rate of 8.50 percent) in 2014 and US\$1.25 billion in 2015 (coupon rate of 8.97 percent).

**Table 2.2: Central Government Budget Actuals**  
(a) Values in K, millions

	2012	2013	2014	2015 <sup>a</sup>
<b>Total revenue</b>	23,016	25,551.16	30,577	34,421
<b>Domestic revenue</b>	22,254	24,532.28	30,297	34,051
<b>Grants</b>	762	1,019	280	369
<b>Total expenditure</b>	25,820	33,790.13	38,542	51,685
<b>Recurrent/expenses</b>	20,950	25,501.44	31,339	38,075
<b>Noninterest expenditure</b>	19,047	23,627.55	27,628	32,852
<b>Interest payments</b>	1,903	1,873.89	3,711	5,224
<b>Development/assets</b>	4,870	8,288.69	7,202	13,609
<b>Balance excluding grants</b>	-2,733	-9,224	-8,976	-17,634
<b>Balance including grants</b>	-1,971.00	-8,204.72	-8,696.02	-17,264
<b>Statistical discrepancy</b>	—	34.247	-731.285	-993.25
<b>Net financing</b>	1,971	8,204.72	8,696	18,257
<b>External</b>	1,307	2,256.04	5,011	15,151
<b>Domestic</b>	1,464	5,948.68	3,685	3,107
<b>Primary budget balance<sup>b</sup></b>	-3,874.00	-10,078.61	-12,407.44	-22,487.90
<b>GDP, current market prices</b>	131,273.50	151,330.50	167,052.50	183,381.10

## (b) Values in % of GDP

	2012	2013	2014	2015 <sup>a</sup>
Total revenue	17.5	16.9	18.3	18.7
Domestic revenue	17.0	16.2	18.1	18.5
Grants	0.6	0.7	0.2	0.2
Expenditure	19.7	22.3	23.1	28.1
Recurrent/expenses	16.0	16.9	18.8	20.8
Noninterest expenditure	14.5	15.6	16.5	17.9
Interest payments	1.4	1.2	2.2	2.8
Development/assets	3.7	5.5	4.3	7.4
Balance excluding grants	-2.1	-6.1	-5.4	-9.6
Balance including grants	-1.5	-5.4	-5.2	-9.4
Statistical discrepancy	—	0.02	0.44	0.54
Financing	1.5	5.4	5.2	10.0
Foreign	0.5	1.5	3.0	8.3
Domestic	1.0	3.9	2.2	1.7

### *Allocation of resources*

At the sectoral-level spending highlighted in Table 2.3, general public services (GPS), which mainly include constitutional spending such as salaries, debt obligations, and intergovernmental transfers, continued to take the majority share of the budget. However, there has been a gradual decline in GPS from 68.2 percent in 2012 to 49.7 percent in 2013, 33.2 percent in 2014, and 41.8 percent in 2015. The decline was in line with the government's objective of allocating more resources toward priorities of the National Development Plans (NDPs).

The economic sector accounts for the second-largest share of fiscal spending. This sector includes activities such as agriculture, mining, transport (including road development and rehabilitation), and energy. The government increased allocation to this sector from 10.7 percent of total expenditure in 2012 to 33.3 percent in 2015. This was in line with allocating resources toward priorities of the NDP, particularly priorities that support growth and economic diversification. However, as noted in the sections on the budget lines, some of this expenditure had not been well targeted, and adequate assessment had not yet been done to assess the economic value of some public investments.

Allocation to education and health represented the third and fifth highest of the sectoral allocations, respectively. Both had increased over the assessment period in line with the government's goal of building human capital. The fourth-largest allocation was to defense and its share has also increased over the assessment period. Allocation to social protection remains very low, averaging only 2.2 percent of total spending over the period. The bulk of this allocation is to social security (pension) while social cash transfers only receive 5 percent of the allocation.

When allocation is analyzed according to economic classification (see Table 2.4), spending on PEs accounts for the largest share, averaging 33.8 percent of total expenditure over the assessment period. In 2014, allocation to PEs sharply increased to 38.8 percent following a 45 percent hike in nominal wages that was agreed in 2013. Capital expenditure is the second-largest component and it averaged 24.7 percent.

Over the assessment period, this capital spending has mainly been on roads. Given this sharp increase in public spending, there is need to strengthen public investment management (PIM) to ensure that capital investments have a positive net economic return.

Subsidies have been the third-largest component of spending by economic classification. They increased from 6.6 percent to 13.9 percent of total spending over the period. On average, spending on Farmer Input Support Programme (FISP) and the Food Reserve Agency (FRA) accounted for 69 percent of the spending on subsidies. Furthermore, they account for 90 percent of the budget allocation to the agriculture sector. There is room to cut spending on subsidies through better targeting in the case of the FISP, reducing the storage levels for the FRA and gradually moving toward cost-reflective pricing for fuel.

Spending on social benefits has been very low and has declined over the assessment period from 3.1 percent of total spending in 2012 to 1.6 percent of total spending in 2015. The budget could better achieve poverty reduction if resources saved through reforms in subsidies and better PIM could be reallocated toward social sectors including scaling the social cash transfer programs.

Finally spending on interest has been the further largest component. There was an increase in the percentage of total spending from 6.1 percent in 2013 to 9.1 percent in 2014 following the issue of a US\$1 billion Eurobond with a final yield of 8.6 percent, and further to 10.1 percent in 2015 following the issue of a US\$1.25 billion Eurobond with a coupon of 9 percent. The depreciation of the kwacha in 2015 was also behind the increase in the spending on interest rates as they were mainly capped in U.S. dollars.

**Table 2.3: Budget Allocations by Function**

Actual budgetary allocations by sectors (as a percentage of total expenditures)				
Function	2012	2013	2014	2015
GPS	68.28	49.72	33.16	41.78
Defense	4.57	6.82	7.74	0.88
Public order and safety	1.14	1.52	1.09	1.02
Economic affairs	10.69	20.85	24.09	33.28
Environmental protection	0.09	0.25	0.09	0.04
Housing and community amenities	1.11	1.21	0.88	0.53
Health	3.31	4.15	6.50	3.53
Recreation, culture, and religion	0.45	0.75	0.59	0.33
Education	9.27	12.32	22.65	16.63
Social protection	1.10	2.41	3.22	1.97
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

**Table 2.4: Actual Budget Allocations by Economic Classification (as a percentage of total expenditures)**

At the sectoral-level spending highlighted in Table 2.3, general public services (GPS), which mainly include constitutional spending such as salaries, debt obligations, and intergovernmental transfers, continued to take the majority share of the budget. However, there has been a gradual decline in GPS from 68.2 percent in 2012 to 49.7 percent in 2013, 33.2 percent in 2014, and 41.8 percent in 2015. The decline was in line with the government's objective of allocating more resources toward priorities of the National Development Plans (NDPs).

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**Table 2.4: Actual Budget Allocations by Economic Classification (as a percentage of total expenditures)**

	2012	2013	2014	2015
<b>EXPENDITURE</b>	100.00	100.00	100.00	100.00
<b>Recurrent</b>	72.35	74.86	78.17	74.46
<b>Wages, salaries</b>	32.75	32.72	38.76	31.13
<b>Interest payments</b>	6.05	6.14	9.13	10.11
<b>Social benefits</b>	3.05	1.84	1.83	1.60
<b>Subsidies</b>	6.60	13.87	8.14	13.85
<b>Capital</b>	27.65	25.14	21.83	24.27

## 2.3 Legal and regulatory arrangements for PFM

The Constitution of Zambia (Amendment) Act 2015 (No.2 of 2016) assented to on January 5, 2016, is a major anchor of PFM. Part XVI, from Sections 198 to 212, deals with public finance and budget.

The constitution has stated principles to be applied to public finance such as transparency, accountability, as well as prudent and responsible use of public resources, among others. Authority for imposition of taxes has been clearly spelled out in the constitution. Revenues and other monies accruing to the Treasury shall be credited to the Consolidated Fund. Clear instructions have been given on how money may be withdrawn from the Consolidated Fund.

The Minister responsible for Finance is required to lay annual estimates of revenue and expenditure not later than 90 days before commencement of the next financial year (except in an election year where the Minister should prepare the estimates within 90 days of the swearing in of the President.) When presenting estimates of revenue and expenditure, the Minister must satisfy the maximum limits the government intends to borrow or lend in the financial year.

The estimates of revenue and expenditure shall be supported by an Appropriation Act after the estimates are approved by the National Assembly. Where the amount appropriated in an Appropriation Act is insufficient to meet expenditure in that financial year, the Minister shall seek approval for the supplementary estimate of expenditure from Parliament. Urgent supplementary expenditure may be authorized under a warrant authorized by the President with copies to the Auditor-General and Parliament. Supplementary expenditure shall be covered by Excess Expenditure Appropriation Bill within a specified time frame.

Conditions for borrowing and lending by the government have been well articulated. The constitution states clearly how public procurement and disposal of state assets should be conducted. Emphasis is on systems that are fair, equitable, transparent, competitive, and cost-effective.

The Minister of Finance shall within 3 months of the financial year-end prepare and submit to the Auditor-General the financial report in respect of the preceding year. The Auditor-General shall within 2 months of receipt of the financial report examine and express an opinion on the same. The Minister shall within one month of receiving the opinion lay the report before the National Assembly. Contents of the financial report are prescribed. The Auditor-General shall within 9 months of the end of the financial year submit the audit report to the President and National Assembly.

### *PFM-related laws and regulations*

The constitution requires the following budget and planning legislation to be prescribed:

- (a) The financial management and regulation of public funds
- (b) The preparation of medium- and long-term financing frameworks
- (c) The budget preparation process
- (d) Public participation at all levels of government in the formulation of financing frameworks, development plans, and preparation of annual budgets
- (e) The content of the financial report of the Republic
- (f) The control and disbursement of appropriated funds

The existing PFM-related laws and regulations are as follows:

- (a) Public Finance Act 2004 and Financial Regulations 2006
- (b) Public Procurement Act (PPA) 2008 and regulations
- (c) National Payments System Act 2007
- (d) Loans and Guarantees (Authorization) Act Cap 366
- (e) The Public Audit Act 1980
- (g) ***The above PFM related laws and regulations also provides the internal control environment in terms of responsibilities, segregation of functions, work processes and the role of the Internal Audit Department including Audit Committees.***

## 2.4 Institutional arrangements for PFM

The MoF is the central ministry for PFM. It is the key agent for mobilizing funds and allocating expenditure to the public sector. The planning and public investment functions that were under the MoF were moved to the Ministry of National Development Planning (MNDP) after its creation in the second half of 2015.

At the civil service level, the ministry is headed by the Secretary to Treasury (ST). This position is a constitutional office and is equivalent to the Deputy Secretary to the Cabinet. The ST operates through two divisions, each headed by a Permanent Secretary:

- (a) Budget and Economic Affairs, comprising the following departments:
  - (i) Economic Management
  - (ii) Budget and Economic Affairs
  - (iii) Investment and Debt
- (b) Financial Management and Administration, comprising the following departments:
  - (i) Office of the Accountant General
  - (ii) Controller of Internal Audit
  - (iii) Human Resource

The MoF performs some of its functions through statutory bodies such as the following:

- (a) BoZ
- (b) ZRA
- (c) ZPPA
- (d) Pensions and Insurance Authority

Management of the political, social, legal, and economic affairs of the state evolves from the central government to provinces, districts, and other spending agencies. The public sector comprises the central government, which in turn has created institutions of governance comprising provincial administration, local government, and several other institutions such as the BoZ, service commissions, investigative commissions, OAG, among others. The highest institution of governance is Parliament that comprises the President and National Assembly. Among other functions, the National Assembly oversees the performance of the executive.

The National Assembly appropriates funds for expenditure by state organs and institutions. The National Assembly comprises 156 elected members and 8 nominated members. The National Assembly is mandated to establish Parliamentary committees that monitor policy implementation of the executive in various portfolios.

The executive function of the state lies with the President. The President exercises his executive functions through cabinet ministers and other institutions. The judiciary is an important governance arm of the government. As per constitution, the judiciary comprises superior courts, subordinate courts, small claims court, and court of appeal.

The existing PFM-related laws and regulations are as follows:

The Chief Justice and the Deputy, the President of the Constitutional Court and the Deputy are appointed by the President and ratified by Parliament. The justice system is protected by the constitution. The payroll is a significant cost to the government and therefore a very important aspect of PFM. The Public Service Management Division (PSMD) at the Cabinet Office manages the payroll through the Payroll and Establishment Management Control System (PMEC); however, staffing matters are dealt with by appropriate service commissions such as the Public Service Commission and Teaching Service Commission.

The assessment covers central government MPSAs. Table 2.5 indicates the number of budgetary units that are equivalent to heads of expenditure in the budget document (Yellow Book). The financial data for extra-budgetary units and Social Security Funds is not included in Table 2.5 due to lack of complete, accurate and reliable data. There are 102 local governments, including 4 cities, 14 municipalities, and 84 districts. Social security funds and public corporations are not included in the scope of the PEFA assessment, except for the purposes of Pillar III. Tables 2.6 and 2.7 show the summary information that is available on the budget estimates and actuals, respectively, on central government revenues, expenditures, transfers, liabilities, financial assets, and nonfinancial assets.

**Table 2.5: Structure of the Public Sector (number of entities and financial turnover)**

	Public Sector				
2015	Government Subsector		Social Security Funds	Public Corporation Subsector	
	Budgetary Unit	Extra-budgetary Units		Nonfinancial Public Corporations	Financial Public Corporations
Central : Number of entities	52	0	0	40	
Central: Financial Turnover	43.47				
Provinces	10				
Local authorities: Numb	102				

**Table 2.6: Financial Structure of the Central Government—Budget Estimates (in Billion Kwacha)**

2015	Central Government			
	Budgetary Unit	Extra-budgetary Units	Social Security Funds	Total Aggregated
Revenue	43.47	0	0	43.47
Expenditure	61.15	0	0.003	61.153
Transfers to (-) and from (+) other units of general government	0.5	0	0	0.5
Liabilities	3.53	0	0	3.53
Financial assets	0	0	0	0
Nonfinancial assets	12.24	0	0	12.24



**Table 2.7: Financial Structure of the Central Government—Actual Expenditure (in Billion Kwacha)**

2015	Central Government			
	Budgetary Unit	Extra-budgetary Units	Social Security Funds	Total Aggregated
Revenue	35.67	0	0	35.67
Expenditure	49.00	0	0.13	49.13
Transfers to (-) and from (+) other units of general government	0	0	0	0
Liabilities	1.23	0	0	1.23
Financial assets	0.00	0	0	0
Nonfinancial assets	6.24	0	0	6.24

## 2.5 Other important features of PFM and its operating environment

As stated earlier, the MoF is the central ministry responsible for PFM. It is a key agent for mobilizing funds and allocating expenditure for the public sector.

The public sector comprises all institutions performing government functions as their primary activity. The public sector comprises the central government, provincial administration, the local government, and other public institutions set up by the government to assist in orderly running of the government, such as Public Service Commission, Judicial Complaints Commission, Electoral Commission of Zambia, and many more.

An important aspect of PFM provided for by the constitution is the creation of the position of the Secretary to the Treasury (ST) who shall be the Chief Controlling Officer of the government. The ST, among other functions, shall be responsible and accountable for financial management and expenditure of public monies appropriated to any state organ—MPSAs.

The ST is also responsible for preparing annual estimate of revenues and expenditure, supplementary estimates of expenditure, and budget. All funds disbursed by the MoF are under the custody of a Controlling Officer appointed by the ST. A Controlling Officer is the Chief Accounting Officer for the head to which funds have been appropriated.

The Public Finance Act under Section 8 provides for the appointment of an Accountant-General by the Public Service Commission who shall be the head of the accounting services of the Treasury and shall, subject to the direction of the ST, be responsible for the compilation and management of the accounts and the custody and safety of public money and public stores of the government. The Accountant-General may give such general or specific directions to accounting officers in relation to the performance of their functions in accordance with the provisions of this act or any regulations that may be made under the act.

The Public Finance Act of 2004 under Section 10 provides for the appointment of Internal Auditors by the ST to conduct internal audit of any ministry, government department, government agency, or any statutory corporation that is funded through the MoF. The constitution provides for the Auditor-General who shall be appointed by the President on the recommendation of the State Audit Commission (SAC), subject to ratification by the National Assembly. The Auditor-General has the responsibility to audit any state organ that is funded by the Treasury.

This chapter provides an assessment of the key elements of the PFM system as captured by the 31 PIs and, where applicable, reports on progress made in improving these. The performance for each of the PIs was assessed and assigned ratings of 'A' to 'D' as per the scoring criteria for each indicator. The criteria must be met in their entirety for the score to be assigned. The scores may be interpreted as follows:

<b>A</b>	<b>Represents performance that meets good international practice; the criteria for the indicator are met in a complete, orderly, accurate, timely, and coordinated way.</b>
<b>B</b>	Typically represents a level of performance ranging from good to medium by international standards.
<b>C</b>	Represents the basic level of performance for each indicator and dimension, consistent with good international practices.
<b>D</b>	Indicates that the feature being measured is present at less than the basic level of performance or is absent altogether or that there is insufficient information to score the dimension.

## Pillar I. Budget reliability

### 1. *PI-1 Aggregate expenditure outturn*

Good practice in PFM emphasizes the importance of the budget being credible to achieve the planned government policies, and the intended budgetary outcomes for fiscal discipline, resource allocation, and service delivery. This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. The indicator is scored B because the outturn was between 90 percent and 110 percent of the budget in at least two of the last 3 fiscal years for which data are available for 2013, 2014, and 2015. Expenditure deviations were 7 percent, -6 percent, and 15 percent for the 3 years.

Indicator/Dimension	Score	Brief Explanation
outturnPI-1 Aggregate expenditure	B	The outturns for 2013, 2014, and 2015 were 107%, 94%, and 115% of budget, respectively.

The data and resulting overall variances that were used to calculate the score achieved are shown in Table 3.1. Cash-based accounting is used.

**Table 3.1: Calculation of Aggregate Expenditure Variance**

Fiscal Year	Original Approved Budget (ZMW)	Aggregate Expenditure Outturn (ZMW)	Outturn as a % of Budget
2015	44,815,019.00	51,684,783.00	115
2014	41,049,407.00	38,541,634.00	94
2013	31,669,348.70	33,790,129.10	107

**Source:** MoF Economic Reports 2013, 2014, 2015 (PEFA website calculation of dimension 2.2 for expenditure by economic classification).

The deviations in 2013 arose largely from higher-than-planned expenditures on the FISP and PEs; and the deviations in 2015 arose from expenditures on fuel subsidy arrears that were not initially included in the approved budget and from higher expenditures on infrastructure.

### **Recent or ongoing reform activities**

In the recent past, the government has undertaken reform measures to improve control over aggregate expenditure outturns, and some of these reforms are the following:

- The newly enacted constitution provisions require that all supplementary budgets are approved by Parliament before expenditure is incurred hence working as a deterrent as sources of financing for the supplementary are supposed to be identified.
- The introduction of the Treasury Single Account (TSA) in 2015 has provided the Treasury with aggregate control over cash balances and facilitates the disbursements of funds to meet payments obligations of MPSAs as they fall due. This has also reduced the risks of diversion of funds to unplanned expenses.
- Rollout of the Integrated Financial Management Information System (IFMIS) to all MPSAs at all levels to enhance budget and commitment controls.

## **2. PI-2 Expenditure composition outturn**

Where the composition of expenditure varies considerably from the original budget, the intended budget outcomes may be severely underachieved. This indicator hence measures the extent to which reallocations between the main budget categories during budget execution have contributed toward the variance in expenditure composition. The results for this indicator measure variations for the administrative classification (ministry/department/agency); and the economic classification (compensation of employees, use of goods and services, consumption of fixed capital, and so on). The 3 most recent fiscal years for which figures were available at the time of the assessment are 2013, 2014, and 2015 for dimensions 2.1, 2.2, and 2.3.

Indicator/Dimension	Score	Brief Explanation
PI-2 Expenditure composition outturn (M1)	D+	Although contingency expenditures were very low, composition variances for both administrative and economic classifications were high.
2.1 Expenditure composition outturn by function	C	The deviation was more than 15% percent in 1 of the 3 years; 2013, 2014, and 2015 - 21.7%, 12.4%, and 14.4%, respectively.
2.2 Expenditure composition outturn by economic type	D	The deviation was more than 15% percent in all 3 years; 2013, 2014, and 2015 - 22.9%, 25.8%, and 22.9%, respectively.
2.3 Expenditure from contingency reserves	A	Expenditure from contingency was less than 3 percent in all the years - 0.1% in all the years 2013, 2014, and 2015.

## **Dimension 2.1 Expenditure composition outturn by function**

This dimension measures the variance between the original approved budget and end-of-year outturn in expenditure composition by program, administrative, or functional classification during the last 3 available fiscal years. Contingency items and interest on debt are excluded. It reflects the government's ability to pursue its policy objectives as intended and stated in the budget. The assessment used the administrative classification of the PEFA website assessment spreadsheet which resulted in a rating of C.

Table 3.2 shows the percentage variations between original budget and actual expenditures by administrative head for the 3 years. The table shows that the variations fluctuate very substantially both between agencies and between years; demonstrating that the budget is a poor predictor of actual expenditures by ministries. This creates large effects on resource allocations and on service delivery so that original legislated intentions for the budget are not met.

*The overall variance across various MPSAs for the 3 fiscal years 2013, 2014, and 2015 were 21.7 percent, 12.4 percent, and 14.4 percent, respectively as depicted in table 3.2. However, in some MPSAs the variance was above 100 percent. In major sectors, such as Zambia Police, Defense, Health, and Education, the variances were much lower than other sectors with average absolute variations over the 3 years of 6.09 percent, 6.42 percent, 7.53 percent, and 8.08 percent, respectively. In contrast, the Ministry of Lands, Ministry of Communication, and the Ministry of Labour showed consistent large underspending for each of the 3 years averaging 49.72 percent, 33.89 percent, and 31.95 percent, respectively.*

**Table 3.2: Calculation of Variances by Administrative Head**

	Variance			
	2013 (%)	2014 (%)	2015 (%)	Average variance (%)
Cabinet Office	63.87	129.15	82.11	91.71
PSMD	-3.15	-11.87	-18.16	11.06
Ministry of Foreign Affairs	27.48	-7.57	-15.78	16.94
National Assembly	2.85	2.81	24.87	10.18
Ministry of Works and Supply	-24.94	-13.81	22.56	20.44
Ministry of Agriculture	18.66	20.25	17.28	18.73
MIBS and Tourism	113.90	-38.22	-17.83	56.65
Ministry of Lands	-33.46	-59.19	-56.49	49.72
Zambia Police	2.86	6.04	-9.36	6.09
Ministry of Home Affairs	-10.48	-0.46	3.08	4.67
Judiciary	-10.87	5.49	-16.22	10.86
MoF - Loans and Investment	8.16	-19.13	20.48	15.92
Ministry of Local Government and Housing (MLGH)	-40.46	-23.40	-24.81	29.56
Ministry of Justice	-28.10	-10.39	-28.74	22.41
MoF	164.62	55.59	9.95	76.72
Ministry of Labour	-31.25	-21.79	-42.81	31.95
Ministry of Communications	-63.14	-24.42	-14.10	33.89
Ministry of Health	-10.16	2.23	-10.19	7.53
Ministry of Defence	-6.52	7.12	-5.62	6.42
Ministry of Education (MoE)	6.07	1.23	-16.94	8.08
Other twenty one MPSAs	20.05	4.58	5.80	10.14
<b>OVERALL VARIANCE</b>	21.70	12.4	14.4	

### ***Dimension 2.2 Expenditure composition outturn by economic type***

This indicator measures the difference between the original approved budget and end-of-year outturn in expenditure composition by economic classification during the last 3 years, including interest on debt and contingency items. The composition of the budget by economic classification is important for showing the balance between different categories of inputs.

Table 3.3 indicates that the variances were greater than 15 percent in each of the 3 years hence the rating of D.

**Table 3.3: Calculation of Variance by Economic Classification**

Year			
	Budget	Actual	Composition Variance (%)
2015	44,815,019	51,684,783	22.9
2014	41,049,407	38,541,634	25.8
2013	31,669,349	33,790,129	22.9

The largest variations were due to subsidies, with subsidies expenditures amounting to more than five times the budgeted expenditure in 2013 and over thrice the budget in the later years. However, other economic heads also varied substantially as can be seen in Tables 3.4, 3.5, and 3.6.

**Table 3.4: Calculation of Variance by Economic Classification, 2015**

Economic Head			
	Budget	Actual	% Deviation
Compensation of employees	16,548,958	16,091,047	-18.10
Use of goods and services	6,266,325	5,109,961	-33.78
Consumption of fixed capital	11,166,023	13,199,938	2.89
Interest	3,436,295	5,223,709	36.69
Subsidies	1,338,068	5,196,381	273.02
Grants	3,666,974	3,740,160	-13.33
Social benefits	999,931	827,103	-32.61
Other expenses	1,392,445	2,296,484	49.60
<b>Total</b>	<b>44,815,019</b>	<b>51,684,783</b>	
<b>Composition variance</b>	<b>22.9%</b>		

*Table 3.5: Calculation of Variance by Economic Classification, 2014*

Economic Head			
	Budget	Actual	% Deviation
Compensation of employees	15,497,445	15,750,329	-13.70
Use of goods and services	5,201,976	4,631,822	-26.29
Consumption of fixed capital	10,918,840	6,772,066	-53.31
Interest	3,040,239	3,711,421	6.75
Subsidies	500,000	1,762,811	237.23
Grants	3,485,921	3,203,999	-23.42
Social benefits	966,125	734,233	-39.33
Other expenses	1,438,861	1,974,953	21.93
<b>Total</b>	<b>41,049,407</b>	<b>38,541,634</b>	
<b>Composition variance</b>	<b>25.8%</b>		

*Table 3.6: Calculation of Variance by Economic Classification, 2013*

Economic Head			
	Budget	Actual	% Deviation
Compensation of employees	11,015,616	11,897,065	-7.33
Use of goods and services	4,755,719	4,443,412	-21.90
Consumption of fixed capital	9,139,879	7,868,017	-29.24
Interest	2,020,844	1,873,890	-22.60
Subsidies	499,972	2,732,801	431.26
Grants	2,739,133	2,739,187	-15.33
Social benefits	739,664	703,898	-20.16
Other expenses	758,521	1,531,858	86.62
<b>Total</b>	<b>31,669,349</b>	<b>33,790,129</b>	
<b>Composition variance</b>	<b>22.9%</b>		

## Dimension 2.3 Expenditure from contingency reserves

This indicator recognizes that while it is prudent to include an amount to allow for unforeseen events in the form of a contingency, this amount should not be so large as to undermine the credibility of the budget. Table 3.7 summarizes the calculations for the years 2012–2014. The share is calculated using the total budget appropriation including contingency, interest, and debt principal amortization.

Table 3.7: Calculation of Contingency Share

Fiscal Year	(K, millions)		Contingency Share (%)
	Total Budget Appropriation	Total Contingency Obligations Incurred	
2013	32,206	44	0.14
2014	42,684	50	0.12
2015	46,667	50	0.11
Average contingency share			0.12

In Zambia, the contingency vote is budgeted separately under an administrative institution (Head 99, Constitutional and Statutory Expenditures). Expenditure from the contingency vote is not identifiable as expenditure is made by first declaring savings. Therefore, expenditures from the contingency are incurred after being varied to various lines and included in the supplementary appropriations in the respective year.

### Recent or ongoing reform activities

- Improve the budget challenge functions of the MoF so as to ensure that budget estimates represent the accurate or close to accurate figures required by the sectors. This includes, but is not limited to, benchmarking of prices of common user items to ensure value for money and full disclosure of costs by the MPSAs.
- Strengthening the Public Finance Act and enacting of the Planning and Budgeting Bill as well as strict adherence to the constitutional provisions on supplementary funding.
- Building capacity of officers/users to use the IFMIS for budgeting and harmonizing the coding system.

### 3. PI-3 Revenue outturn

Accurate revenue forecasts are a key input to the preparation of a credible budget. Revenues allow the government to finance expenditures and deliver services to its citizens. Optimistic revenue forecasts can lead to unjustifiably large expenditure allocations that will eventually require either an in-year and potentially disruptive reduction in spending or an unplanned increase in borrowing to sustain the spending level.

Indicator/Dimension	Score	Brief Explanation
PI-3 Revenue outturn (M2)	C+	The decline in revenue composition outturn worsened the overall revenue outturn scoring to C+.
3.1 Aggregate revenue outturn	A	Actual revenue was between 97% and 106% of budgeted revenue in at least 2 of the last 3 years.
3.2 Revenue composition outturn	D	Variance in revenue composition was more than 15% in 2 of the last 3 years.



**Table 3.8: Calculation of Revenue Composition Outturn**

Fiscal Year	Total Revenue Deviation (%)	Composition Deviation (%)
2013	97.3	13.8
2014	95.1	20.2
2015	97.3	19.6

### **Dimension 3.1 Aggregate revenue outturn**

The overall performance of revenue collection for the period under review was largely on target. However, deteriorating compliance levels in addition to the depreciation of the local currency against other major currencies especially in 2015 also had an impact on revenue performance. These factors affected mostly revenues from trade taxes and consumptions taxes such as excise duty. Nonetheless, the change in policy on the taxation of the mining sector and enforcement of proof of export rules for value added tax (VAT) claims moderated the impact on the overall performance.

The government is focusing on introducing and enhancing mechanisms that will foster compliance. The emphasis is on the introduction of electronic systems to ease compliance in the case of tax filing and payments. Further, new systems are intended to strengthen monitoring of taxes such as VAT and customs and excise duties (especially for goods in transit) to enhance compliance.

### **Dimension 3.2 Revenue composition outturn**

Revenue forecasts are developed based on outturns of the previous year and policy changes done in consultation with revenue collecting agencies and institutions during the budget preparation process. At the beginning of the budget preparation process, the MoF requests for revenue policy and administration proposals from the general public including from revenue collectors. These policy submissions together with their revenue implications are reviewed by the Tax and Non-Tax Policy Review Committees. Any proposals developed from the committees are then subjected to various approval processes before inclusion in the national budget. During budget implementation, institutions submit revenue returns on a monthly basis indicating reasons for any variances in collection. These form part of the inputs for developing the following year's forecast.

Macroeconomic projections are the backbone of all revenue projections especially those for GDP, inflation, exchange rates, import volumes, and mineral production figures. The Budget Office receives the macroeconomic projections from the Economic Management Department and develops revenue projections based on the macros together with other assumptions such as previous performance and changes in tax rates or policy. It should be noted that change of policy during the implementation of the budget and delayed implementation of a number of policy or programs on which revenue projections were based led to lower or higher than anticipated collections. In 2014 and 2015, the non-implementation of programs such as the Integrated Land Management System, the Tourism Levy, and the National Titling Programs affected revenue collections related to fees and charges on land and tourism activities/enterprises.

In addition, the non-reporting of foreign support in form of grants received directly by implementing agencies (MPSAs) lead to non-capture of resources at the Treasury. This is reflected as underperformance in the case of foreign grants that come in the form of project support directly to beneficiary institutions.

## Recent or ongoing reform activities

To improve the availability of accurate information on actual revenue to assist with making revised estimates or controlling deviations, the following measures need to be fully implemented:

(a) Rollout of the IFMIS shall improve reporting of aggregate revenue outturn and revenue composition outturn once it is completed.

(b) The use of electronic methods in revenue collections such as point of sale are needed and would minimize revenue leakages in the system and in turn improve revenue outturn.

To improve internal controls - control environment, risk assessment, control activities, information and communication, monitoring - the following reform measures could be helpful:

(a) The control environment is stronger as management fully supports use of information and communication technology (ICT) services to improve actual revenue collections.

(b) Public Finance Act and Financial Regulations outline procedures on the collection, receipting, and banking of tax and nontax revenues which all government institutions follow.

(c) The Auditor-General's reports give more appropriate feedback on areas that require strengthening and enhanced internal controls.

## Pillar II. Transparency of public finances

### 1. PI-4 Budget classification

A comprehensive classification system facilitates effective linkage of budget allocations to underlying policies, expenditure recording, and monitoring of transactions, especially the management of key line items for efficient and economical management of resources. This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. Government accounts, budget execution reports, and other budget execution data should be produced with a breakdown that corresponds to the documentation for the approved budget. It is rated B because of Budget formulation, execution and reporting are based on GFS /COFOG.

Indicator/Dimension	Score	Brief Explanation
PI-4 Budget classification	B	Uses the GFS/ Classifications of the Functions of Government (COFOG) standards.

The budget classification system used for budget formulation, execution, and reporting is documented in the MoF's Accounting Manual. During the budget process, MPSAs are required to use COFOG. An example of the subfunction level is:

Level 1 (describes government objective)	07 Health
Level 2 (describes function)	07.3 Hospital services
Level 3 (subfunction)	07.33 Medical and maternity centre services

Action is under way to fully align programs included in the budget to the functions of the respective agencies. The Ministry of General and Higher Education requires programs to be developed on functional lines; and this procedure will be rolled out to all MPSAs through the Output-Based Budgeting (OBB) system. Parallel implementation of the IFMIS and activity-based budget/financial management system (ABB/FMS) systems for preparation and budget execution has posed challenges for ensuring compatible data capture and is subject to human error. Review of integration arrangements is proposed.

### ***Recent or ongoing reform activities***

- There is need to fully align programs in the budget to the functions of the respective agencies. Currently, work has commenced starting with the Ministry of General and Higher Education which requires that programs are developed on functional lines which will be rolled out to all MPSAs through the OBB system.

#### ***2. PI-5 Budget documentation***

The indicator assesses the comprehensiveness of the information included in the annual budget documentation as submitted to the legislature for scrutiny and approval. It is rated B because the 2015/2016 budget documents fulfill three of the four basic elements and four of the eight additional elements. Table 3.9 below shows the elements that have been met.

Indicator/Dimension	Score	Brief Explanation
PI-5 Budget documentation	B	Three basic elements are fulfilled and four additional.

**Table 3.9: Summary of Information Included in Budget Documentation**

Basic Elements	Yes/No
1. Forecast of the fiscal deficit or surplus or accrual operating result.	Yes - Green Paper and Budget Speech
2. Previous year's budget outturn, presented in the same format as the budget proposal.	No
3. Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Yes - Yellow Book
4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	Yes - Yellow Book
<b>Additional elements:</b>	
5. Deficit financing, describing its anticipated composition.	Yes - Green Paper and Budget Speech
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	Yes - Green Paper, Call Circular, and Budget Speech
7. Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	No
8. Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	No
9. Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on.	No
10 Explanation of budget implications of new policy initiatives and major new public investments, with estimate of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.	Yes - Green Paper and Budget Speech
11. Documentation on the medium-term fiscal forecasts	Yes - Green Paper
12. Quantification of tax expenditures	No

The medium term expenditure framework of the Government is providing in a document known as 'Green Paper'. The annual budget of the Government is presented in a document popularly known as the 'Yellow Book'.

## Recent or ongoing reform activities

- The MoF is in the process of adopting International Public Sector Accounting Standards (IPSAS) accrual accounting which will require that financial assets and liabilities are captured and included in the financial report.
- The government is using the Debt Management and Financial Accountability System (DMFAS) for management of both domestic and external debt. The government is in the process of interfacing the DMFAS and the IFMIS to enhance financial reporting.

### 3. PI-6 Central government operations outside financial reports

Ex post financial reports available to the government should cover all budgetary and extra-budgetary activities of the central government to allow a complete picture of revenue and expenditures. The overall rating of the indicator is C+ due to the extent to which the central government operations outside the financial reports are reported.

Indicator/Dimension (M2)	Score	Brief Explanation
<b>PI-6 Central government operations outside financial reports (M2)</b>	C+	Overall performance is not strong because of the government revenue and expenditure are reported outside central government financial report, and the absence of information on parastatal performance.
<b>6.1 Expenditure outside financial reports</b>	B	Expenditure outside government financial reports is less than 5% of total Budgetary Central Government (BCG) expenditure. All donor-funded projects in line ministries are captured in the annual budget.
<b>6.2 Revenue outside financial reports</b>	B	Revenue outside government financial reports is less than 5% of total BCG expenditure. All donor-funded projects in line ministries are captured in the annual budget.
<b>6.3 Financial reports of extra-budgetary units</b>	D	Donor-funded projects in two major sectors (health and education) were reported through the financial report during the period under review. As for parastatal organizations, there were at least 50% that did not have audited financial statements for the period.

## ***Dimension 6.1 Expenditure outside financial reports***

Extra-budgetary units, as per the 2014 Government Financial Statistics Manual, are defined as, government entities with a separate legal identity and substantial autonomy including discretion over the volume and composition of their expenditures and a direct source of revenue. Zambia has extra-budgetary units in the transport and communication, roads, health, education, and agriculture sectors. Some of these sectors collect revenue on behalf of Government which form part of the consolidated fund. In return Government provides grants which are expensed once funded and this is reflected in financial statements. In health, education and agricultural sectors, service delivery units get fees and charges which are retained and used to fund part of their operations in addition to the grants that they receive. Though, there is no consolidated data on how much is collected and expensed, the amounts involved for these extra-budgetary units was less than 5 percent of the overall government budgets. The limitation in scope is as a result of the fact that there is currently no framework to capture and consolidate this data for inclusion in financial statements. With regard to the Social Security funds, the funds disbursed by Government are all captured in the annual Government financial report.

## ***Dimension 6.2 Revenue outside financial reports***

In the largest service sectors (education and health), all donor funding whether negotiated or agreed on was included in the donor component of the national budget (total BCG revenue). However, in the health sector, fees charged as user fees in referral hospitals were not included in the budget estimates. In the education sector user fees and revenue from other sources such as Production Units and Parent Teacher Association (PTA) funds were not captured in the main financial report. The Auditor-General's report revealed that revenue of less than 5 percent was not accounted for in the financial year 2015. The limitation in scope is as a result of the fact that there is currently no framework to capture and consolidate this data for inclusion in financial statements.

## ***Dimension 6.3 Financial reports of extra-budgetary units***

Because there are no donor-funded projects reported outside the financial report, all expenditure in the two major sectors (health and education) were reported through the financial report for 2014 and 2015. For parastatal organizations, at least 50 percent did not have audited financial statements over the period. This did not represent the majority of the extra-budgetary units.

### ***Recent or ongoing reform activities***

The government has recently created a Project Unit under the Office of the Accountant General to coordinate and strengthen financial reporting of donor-funded projects in line ministries. Currently, a development of a framework for improving financial reporting in donor-funded projects is under way. Reforms are under way to make the IFMIS the primary financial accounting and information system for donor-funded projects.

## ***4. PI-7 Transfers to subnational governments***

The assessment is focused on transfer from the central government to the subnational government. It is recognized that subnational governments also have wide-ranging expenditure responsibilities. This indicator assesses the transparency and timeliness of transfers to subnational governments.

Indicator/Dimension	Score	Brief Explanation
PI-7 Transfers to subnational governments (M2)	B+	The government makes transfers to subnational governments through the Equalization Fund and the Constituency Development Fund (CDF). The Equalization Fund and CDF are disbursed to local government authorities (LGAs) to supplement their operations and capital projects budgets.
7.1 System for allocating transfers	B	The level of funding to the Local Government Equalization Fund has been set at 5% of income tax collected in a particular period and is distributed according to a formula. The formula takes into account population and poverty levels. The CDF budget provision is arrived at after consultations with all key stakeholders (Members of Parliament [MPs], Treasury, and local government) and is dependent on the projected revenue envelope for the next fiscal year. Once this has been agreed, the amounts are equally distributed to all constituencies.
7.2 Timeliness of information on transfers	A	The Ministry of Local Government and Housing issues the Call Circular to local authorities on their annual projected transfers by early October and they are required to make submissions by end of October.

### Dimension 7.1 System for allocating transfers

In Zambia, local government units refer to local councils, which comprise city councils, municipal councils, and district councils. Departments at provincial and district level are deconcentrated representation of the central government. Within Zambia's 10 provinces are 102 councils consisting of 4 city councils, 14 municipal councils, and 84 district councils as of 2015. The structure of the subnational government is described in the Local Government Act 1991, and the amended Act 2004. Transfers from the central government to councils are managed by the MLGH.

The allocations from the central government are through subventions to the subnational governments by way of grants in lieu of rates, the CDF (as per Article 162 of the amended constitution of 2016) and the Local Government Equalization Fund (as per Article 163). The processes for allocating these funds are transparent, rule based, and timely, and all the councils are fully aware of the mechanism. The Local Government Equalization Fund and the Grants in lieu of rates are rule based while the CDF is equally distributed among all the constituencies based on the allocations for a particular fiscal year. Below is table 3.10 showing amounts allocated to CDF and LGEF as a percentage of the total budget transfer to the Local Authorities and this represents 81.71 % of the budget on average over the three year period.

Fiscal Year	Total of CDF & LGEF		Total Transfers		% of CDF & LGEF allocation against total transfers
	Budget	Actual	Budget	Actual	
2013	535,000,000.00	106,666,666.00	693,596,000.00	106,666,666.00	77.13%
2014	796,759,459.00	659,559,459.00	883,026,085.00	700,485,283.00	90.23%
2015	644,016,216.00	568,970,491.00	841,491,095.00	599,160,125.00	76.53%
<b>Total</b>	1,975,775,675.00	1,335,196,616.00	2,418,113,180.00	1,406,312,074.00	81.71%

## **Dimension 7.2 Timeliness of information on transfers**

Information regarding expected transfers to subnational governments is communicated through the Call Circular which is issued by the MLGH at least 6 weeks before commencement of planning for LGAs. For the fiscal years, 2014, 2015 and 2016, the Circulars were issued in the month of October 2013, October 2014 and October 2015 respectively. The Call Circular provides the information needed for ensuring that implementation of programs is in line with the calendar year of central government which commences in January.

### **Recent or ongoing reform activities**

- The government has developed a fiscal decentralization policy and pilot implementation is under way to facilitate direct transfer of resources from the Treasury to LGAs. This will empower provinces and districts to manage their own affairs for effective social economic development. A Draft Intergovernmental Fiscal Architecture has been developed and is currently being finalized for submission and approval for implementation.

## **5. PI-8 Performance information for service delivery**

This indicator examines the service delivery performance information in the executive's budget proposal or its supporting documentation in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded.

Indicator/Dimension	Score	Brief Explanation
PI-8 Performance information for service delivery (M2)	C	Performance information is available through Budget Speeches and Call Circulars for majority of ministries. Surveys and external evaluations have been conducted at least once during the review period to evaluate performance of service delivery units.
8.1 Performance plans for service delivery	C	Information is published annually, in the Yellow Book, on the activities to be performed under the programs for the majority of the ministries and all Ministers make public ministerial statements made in Parliament to support the performance plans as outlined in the Yellow Book.
8.2 Performance achieved for service delivery	C	Information is published annually on activities performed for majority of the ministries in the Annual Progress Report.
8.3 Resources received by service delivery units	C	Surveys are conducted in various sectors. Evaluations of the efficiency and effectiveness of service delivery have been carried out at least once in the last 3 years in various sectors; for example, the Public Expenditure Tracking Surveys have been conducted in agriculture, health, and education sectors of how resources are distributed and used to attain set goals.
8.4 Performance evaluation for service delivery	C	Evaluations of the efficiency or effectiveness of service delivery have been carried out for some ministries at least once within the last 3 years. Performance audits on at least 11 out of the 24 ministries were conducted by the OAG to evaluate efficiency or effectiveness of service delivery representing 44% of the ministries.

## **Dimension 8.1 Performance plans for service delivery**

Information is published annually, in the Yellow Book, on the activities to be performed under the programs for the majority of the ministries and all Ministers make public ministerial statements in Parliament to support the performance plans as outlined in the Yellow Book. Further, targets are also set out in the Budget Speech., Key performance indicators for major sectors (economic, health and education) are included in the NDPs. Sector-specific policies and guidelines are issued before commencement of program implementation. However, problems can arise in frontline service delivery units in obtaining resources that were intended for their use as guidelines may be misunderstood at the time of implementation by grassroots implementers. An example on this indicator includes targets and expected outputs for the primary education, health care service delivery units, etc that are under the responsibility of the GRZ.



Below is Table 3.11 showing the budget allocations of these resources to these sectors and this represents more than 50% for the three successive years.

**Table 3.11: Calculations of budget allocations by specific sectors and their weighting**

Fiscal Year	2013	Weight	20`14	Weight	2015	Weight
	K' billions	(%)	K' billions	(%)	K' billions	(%)
<b>Economic Sector</b>	8,897.00	28%	11,943.00	28%	12,747.00	27%
<b>Health</b>	3,638.00	11%	4,228.00	10%	4,464.00	10%
<b>Education</b>	5,624.00	17%	8,607.00	20%	9,433.00	20%
<b>Total</b>	18,159.00		24,779.00		26,644.00	
<b>Budget Total</b>	32,212.00	56%	42,682.00	58%	46,667.00	57%
<b>Key sectors as a % of Total Budget</b>		56%		58%		57%

### **Dimension 8.2 Performance achieved for service delivery**

Sector performance assessments in the majority of sectors (Refer to Table 3.11 above) were done on a yearly basis and included in the Annual Progress Reports. Service delivery surveys were also conducted in various sectors to ascertain achievement of targets set in the Revised Sixth National Development Plans (R-SNDPs).

#### **Dimension 8.3 Resources received by service delivery units**

Information is available on resources allocated to the health, general education, and agriculture service delivery units. These units have been selected in view of the large allocation received by these sectors, comprising around a third of the total budget allocation. The planned outputs are well publicized in the sector policy documents published annually before commencement of budgeting and program implementation.

### **Dimension 8.4 Performance evaluation for service delivery**

Evaluations of the efficiency or effectiveness of service delivery have been carried out for some ministries at least once within the last 3 years. Performance audits on at least 11 out of the 24 ministries were conducted by the OAG to evaluate efficiency or effectiveness of service delivery representing 44% of the ministries.

The OAG uses International Standards for Supreme Audit Institutions (ISSAIs) in conducting performance audit assignments in various sectors. The OAG normally undertakes six performance audit assignments per year. In the last 3 financial years, 15 audits were undertaken covering 11 ministries. Another factor, apart from resources that has led to this low number of performance audits being done has been the fact that priority is still on financial and compliance audits as there are still gaps in PFM systems leading to leakages as reported year by year in the report of the Auditor-General. It is envisaged that when the PFM systems are improved, the number of performance audits may be increased.

### **Recent or ongoing reform activities**

Internal Audit Department has introduced performance audits in their work profile on evaluation of service delivery. The department has completed development of the Performance Audit Manual in consultation with various stakeholders. So far, no full performance audits have been undertaken by the internal audit function under the MoF but is currently involved in capacity building of its staff. However, internal audit has planned to include performance audits in future.

The government is currently rolling out the IFMIS to all MPSAs which will enhance information provision on service delivery and improve PFM in general. In addition, the Budget Office is implementing an OBB system on a pilot basis in the Ministries of General and Higher Education. The government is currently reviewing the OBB

performance before full rollout to all MPSAs.

## 6. **PI-9 Public access to fiscal information**

Transparency in the government depends on comprehensiveness of fiscal information available to the public. The quality of information and the means by which this is made available to the public is as important as the extent of information coverage. The overall indicator is rated D on account of delayed publication of fiscal information. Although the regulations provide for publication of monthly fiscal information within 45 days of the end of the previous reporting month, publications is usually done past the 45 days reporting period. Though the information is ready within 30 days for MPSAs that are using the IFMIS, the delay in publication is on account of ministries that are found at the provincial and district levels such as Education, Health, Local Government, Agriculture, Livestock and Fisheries, and Home Affairs where the IFMIS has not yet been rolled and the compilation and submission of reports for consolidation by the Ministry Headquarter is delayed.

Indicator/Dimension	Score	Brief Explanation
PI-9 Public access to fiscal information	D	In providing the public with access to fiscal information, the government has met only three (3) of the basic elements and all the additional elements listed. However, to score a C a minimum of the four basic elements must be met. This means that the public does not have timely access to fiscal information thus resulting in a D score.

*Table 3.12 shows the elements determining public access to key fiscal information.*

**Table 3.12: Public Access to Key Fiscal Information**

Elements of Information for Public Access	Public Availability	Assessment
Basic elements		
1. Annual executive budget proposal documentation. A complete set of executive budget proposal documents is available to the public within one week of the executive's submission of them to the legislature.	Yes	The Yellow Book is printed and made available for all to buy at a very minimal cost immediately after the Minister makes the submission to Parliament. Further, a simplified version of the budget proposal is distributed to the public.
2. Enacted budget. The annual budget law approved by the legislature is publicized within 2 weeks of passage of the law.	Yes	Budget law is gazetted by the government printer and the public is free to purchase final budget bills and statutory instruments with 2 weeks of the passage of the law.
3. In-year budget execution reports. The reports are routinely made available to the public within one month of their issuance.	No	Budget execution reports are produced internally; however, these are not consistently and timely made available to the public within one month of their issuance. The ST sometimes holds press conferences to address the state of the fiscal performance. Further, budget performance is published in the mid and annual economic reports.

4 Annual budget execution report. The report is made available to the public within 6 months of the fiscal year's end.	No	Annual budget execution is reported in the mid-year economic report which is published in August/September of the fiscal year.
5. Audited annual financial report, incorporating or accompanied by the external auditor's report. The reports are made available to the public within 12 months of the fiscal year's end.	Yes	Each statement is submitted for audit by the Auditor-General and an opinion issued on each head of expenditure (MPSA). The audit opinion is included under each statement and incorporated in the financial report within nine months of the end of the financial year.
Additional elements		
6. Pre-budget statement. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least 4 months before the start of the fiscal year.	Yes	The MoF produces a consultative document called a Green Paper by June (more than 4 months) before the start of the fiscal year. The Green Paper is published in the print media and website. The ministry receives comments from the general public and MPSAs which are incorporated in the final budget guidelines to ministries.
7. Other external audit reports. All nonconfidential reports on central government-consolidated operations are made available to the public within 6 months of submission.	Yes	Audit reports are made public as soon as the audit process is complete. Reports are immediately distributed to clients and available for stakeholders to purchase copies. In addition, reports are publicized on the OAG website.
8. Summary of the budget proposal. A clear, simple summary of the executive budget proposal or the enacted budget accessible to the nonbudget experts, often referred to as a 'citizens' budget," and where appropriate translated into the most commonly spoken local language, is publicly available within 2 weeks of the executive budget proposal's submission to the legislature and within one month of the budget's approval.	Yes	The citizens budget is made public and distributed once the budget has been enacted and Appropriation Act produced.
9. Macroeconomic forecasts. The forecasts, as assessed in PI-14.1, are available within one week of their endorsement.	Yes	Macroeconomic forecasts are included in the Green Paper and endorsed by Cabinet. The Green Paper is immediately published in the print media within the week of being endorsed.

### **Recent or ongoing reform activities**

- Rollout of the IFMIS to deconcentrated sites. The government is developing a strategy and road map through the consultant that has been engaged on the rollout of the IFMIS to deconcentrated sites, district, and provincial level. This strategy and road map once implemented will result in the timely publication of fiscal information within 30 days.
- The government has developed the Planning and Budgeting Policy and is now working toward enacting the

Planning and Budgeting Bill which aims at regulating the budget process. This Bill when enacted will also regulate the time frames for publication of fiscal information.

### **Pillar III. Management of assets and liabilities**

#### **1. PI-10 Fiscal risk reporting**

The indicator measures the extent to which fiscal risks to the national government are reported. Fiscal risks could arise from adverse macroeconomic situations, financial positions or subnational governments or public corporations and contingent liabilities from government programs and activities including extra-budgetary units.

<b>Indicator/Dimension</b>	<b>Score</b>	<b>Brief Explanation</b>
PI-10 Fiscal risk reporting (M2)	D+	Monitoring is inadequate to know or manage the fiscal risks from public corporations and subnational governments.
10.1 Monitoring of public corporations	D	No single unit under the Investment and Debt Management (IDM) Department is responsible for tracking the submission of audited financial statements from public corporations. In addition, the sample audited by the OAG shows that 50% of government corporations did not submit audited financial statements.
10.2 Monitoring of subnational governments	C	The Ministry of Local Government monitors the preparation of financial statements by subnational government/councils. The local government auditors undertake the audit of councils but most councils have not been audited for the past 9 years as this unit does not have sufficient numbers of skilled staff.
10.3 Contingent liabilities and other fiscal risks	D	The government guarantees loans on behalf of agencies upon assessing their viability. The government through the IDM records the loan guarantees through the loan agreements (terms, amounts, and purpose). When these guarantees become payable and the agencies are unable to pay, the government recognizes the debt in the financial report.

#### **Dimension 10.1 Monitoring of public corporations**

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 IDM Office 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. The report contains no assessment of the fiscal impact of contingent liabilities. The Industrial Development Corporation (IDC) which reports directly to the Office of the President has taken on monitoring of about 50 percent of the public corporations.

There is no structured system in place to monitor the submission of audited financial statements by public corporations, apart from the annual audit requirement. The Auditor-General's report on the 2014 accounts indicated that 26 statutory and parastatal bodies had not produced audited financial statements for periods ranging from 1 to 13 financial years up to December 31, 2014. Details of the periods for which there were no financial statements are as follows:

**Table 3.13: Periods Statutory and Parastatal Bodies had no financial statements**

1 National Food and Nutrition Commission - Ministry of Health	2009 to 2014
2 Zambia Medicines Regulatory Authority - Ministry of Health	2011 to 2014
3 General Nursing Council - Ministry of Health	2014
4 Hotel Tourism and Training Institute - Ministry of Tourism	Since inception in 2001
5 Citizenship Economic Empowerment Commission - Ministry of Commerce	2013 to 2014
6 ZPPA - MoF	2009 to 2014
8 Zambia Institute of Mass Communication - Ministry of Information	2013 to 2014
9 Independent Broadcasting Authority - Ministry of Information	2013 to 2014
10 FRA - Ministry of Agriculture	2012 to 2014
11 Livestock Development Trust - Ministry of Agriculture	2009 to 2014
12 Cotton Board of Zambia - Ministry of Agriculture	2014
13 Tobacco Board of Zambia - Ministry of Agriculture	2014
14 Cotton Development Trust - Ministry of Agriculture	2012 to 2014
15 Chambeshi Water and Sewerage Company - Ministry of Local Government	2012 to 2014
16 Luapula Water and Sewerage Company - Ministry of Local Government	Since inception in 2008
17 North Western Water and Sewerage Company - Ministry of Local Government	2012 to 2014
18 Western Water and Sewerage Company - Ministry of Local Government	2012 to 2014
19 Zambia Education Publishing House - MoE	2007 to 2014
20 Nitrogen Chemicals of Zambia - Ministry of Agriculture	2009 to 2014
21 National Housing Authority - MLGH	2012 to 2014
22 National Heritage Conservation Commission - Ministry of Tourism	2007 to 2014
23 National Youth Development Council - Ministry of Youth and Sport	2006 to 2014
24 State Lotteries Board – MoF	2007 to 2014
25 Zambia Railways - Ministry of Works and Supply	2013 to 2014
26 TAZAMA - Ministry of Works and Supply	2013 to 2014

The Auditor-General stated “non-production of audited financial statements by the above institutions is contrary to good practices and various enabling legislations governing the organizations.” The significance of these failures to report is attested by the Auditor-General’s finding that “These are clear indicators of internal control lapses in most parastatal and statutory organization” and a failure of good corporate governance.

The government does not receive financial reports from most public corporations within 9 months of the end of the fiscal year.

### **Dimension 10.2 Monitoring of subnational governments**

The Ministry of Local Government monitors the preparation of financial statements by subnational government

(councils). Councils submit quarterly and annual performance review reports to the MLGH on budget execution, which include information on councils' own revenues and expenditures. Neither the MLGH nor the MoF prepares a consolidated fiscal report on subnational governments. In respect of audit, the ministry has responsibility and has a unit for this purpose. However, most councils have not been audited for the past 9 years as the auditing unit does not have sufficient skilled staff. Unaudited reports on the financial position and performance of the majority of subnational governments are published at least annually within 9 months of the end of the fiscal year. A provision in the amended constitution (Article 250) assented to on January 5, 2016 requires the OAG to carry out audits of provincial administration and local authorities.

### **Dimension 10.3 Contingent liabilities and other fiscal risks**

There is very little monitoring of contingent liabilities and other fiscal risks. Further, there are no consolidated reports on fiscal risks of agencies of local governments, which have substantial unfunded superannuation liabilities, and limited revenue-raising capacity. The government guarantees loans on behalf of agencies upon assessing their viability. The government through the IDM records terms, amounts, and purpose of the loan guarantees through loan agreements. If these guarantees become payable, and the agency is unable to pay, the government recognizes a debt in the financial report.

### **Recent or ongoing reform activities**

Currently the Public Finance Act is being reviewed that will compel government corporations to be up-to-date with their submission of audited financial statements.

The government has established the IDC under which all SOEs will be managed and monitored. The IDC will strengthen the monitoring and auditing of government corporations and enhance good corporate governance because the primary focus is to provide oversight in the operations of these entities.

## **2. PI-11 Public investment management**

Public investments are viewed as a key prerequisite to achieve and sustain economic growth, achieve strategic policy objectives, and address national service delivery needs. This indicator assesses economic appraisal, selection, costing, and monitoring of public investment projects by the government with an emphasis on the most significant projects.

<b>Indicator/Dimension</b>	<b>Score</b>	<b>Brief Explanation</b>
PI-11 Public investment management (M2)	D	There is currently no system in place to coordinate and oversee major investment projects.
11.1 Economic analysis of investment proposals	D	Economic analyses are not conducted for major investment projects, guidelines are in draft form, and major investment projects are not assessed or reviewed by an entity other than the sponsoring entity.
11.2 Investment project selection	D	There is no formal system in place for project identification, screening selection, and appraisal of all major investment projects. Ministerial decisions on some of the major investments projects are included in national development plans and these are prioritised by a Central entity which is Ministry of Finance
11.3 Investment project costing	D	Comprehensive financial analysis of investment projects is not taken into account when budgeting for the medium term as more focus is on the budget year. The estimates indicated for the next 2 years are estimates which cannot be relied upon.

11.4 Investment project monitoring	C	There are no standard procedure and rules for project implementation in place. However, the physical progress and costs of major investment projects is monitored by implementing government units and progress reports on major investment projects are prepared annually.

The indicator spans all types of PFM systems, including those with separate recurrent and capital budget management processes and institutions. Moreover, the term 'major investment project' includes investments implemented through structured financing instruments such as PPPs.

### ***Dimension 11.1 Economic analysis of investment proposals***

The Ministry of Finance has had oversight of project selection through its budget processes. However, no robust appraisal methods exist to conduct feasibility studies for major investment projects. However, the MNDP, established in late 2015 is now in place to coordinate development planning. Under the Ministry of Development Planning a department called Public Investment Planning Department was created in 2016 to coordinate public investment functions. The Public Investment Planning Department is not yet fully operational as more staff are required to enable the department function to fully attain their objectives and mandate. Treasury authority was partly granted such that only a few staff have been placed in the department.

A framework is being developed to compel all public investments to undergo economic appraisal. The process is being supported by the United Nations Development Programme and the World Bank. A project concept note has been developed and submitted for consideration to the World Bank. A joint IMF and World Bank assessment of PIM using Public Investment Management Assessment Framework has been conducted in 2017.

### ***Dimension 11.2 Investment project selection***

The NDP provides a framework for investment project selection which is mainly conducted in ministries. The MoF currently has the central role of reviewing some of the major investment project selection through the budget process and using the Green Paper MTEF of sector priorities and covers the large projects. However, there is no clearly defined criteria against which major investment projects are prioritized.

### ***Dimension 11.3 Investment project costing***

There is no formally controlled process for costing projects and undertaking review.

### ***Dimension 11.4 Investment project monitoring***

There are no standard procedure and rules for project implementation in place. Implementing agencies are responsible for monitoring their projects and reporting on progress through the budget cycle. However, the Monitoring and Evaluation (M&E) Department undertakes some monitoring activities of implementation of investment projects and provides guidelines for use by ministries to record progress.

### ***Recent or ongoing reform activities***

- The Public Investment Planning Department has been created in the Ministry of National Development planning to coordinate public investments functions. The department is in the process of developing and implementing a comprehensive public investment management framework. As a first step, the department is in the process of undertaking an assessment of the entire PIM cycle as part of the PFM reforms.
- In addition, the draft Planning and Budget Bill has a provision requiring any new major project to be undertaken to be appraised.

## **3. PI-12 Public asset management**

This indicator assesses the management and monitoring of government assets and the transparency of asset disposal.

Indicator/Dimension	Score	Brief Explanation
PI-12 Public asset management (M2)	D+	Financial and nonfinancial asset monitoring, and transparency of asset disposal has been weak.
12.1 Financial asset monitoring	C	The government maintains a register of its holdings in major categories of financial assets. However, the information available is in percentage terms only without indication of fair or market values.
12.2 Non-financial asset monitoring	D	A register of government holdings of fixed assets is maintained and partial information on their usage and age is maintained. However, the information on assets is not published. There is no information on collection and usage of assets.
12.3 Transparency of asset disposal	C	Procedures and rules for transfer and disposal of assets are in place. However, only partial information is included in the budget documents, annual financial reports, and other reports.

### **Dimension 12.1 Financial asset monitoring**

Financial Assets of Government includes cash, securities and receivables. Public Finance Act requires maintenance of register of financial assets. More than 50% of financial assets are included in the Registers, maintained by BOZ and the Investment and Debt Management Department.

In respect of major state assets such as parastatals and government asset investments, constitutional provisions on public procurement and disposal of state assets require that a major state asset shall be sold, transferred, or otherwise disposed off as prescribed and subject to approval by the National Assembly signified by a vote of two-thirds of the MPs. However, there is no system of reviewing the assets for assessment of the fair value.

### **Dimension 12.2 Non-financial asset monitoring**

The Public Stores Regulation provides guidelines on who is responsible for acquisition, maintenance, and disposal of government assets.

### **Dimension 12.3 Transparency of asset disposal**

Section 29 of the Public Finance Act 2004 requires that where any public stores are no longer required, the ST, may, on the recommendation of the Board of Survey direct the disposal thereof by destruction or sale by public auction, or public tender and payment of the proceeds of sale, if any, into the general revenues of the Republic. Section 52 provides for the Minister to make regulations for disposal of stores. Audit reports found some deficiencies regarding unaccounted for stores and other disposal queries but the issue is not highlighted as a major concern. Audit query amounts reported for unaccounted for stores have been on a declining trend:

**Table 3.14: Unaccounted for Stores**

Irregularities noted	2015	2014	2013
	K	K	K
Unaccounted for stores	13,460,323	26,400,272	72,371,091

Financial assets disposal is covered under the Public Finance Act. On the basis that procedures and rules for transfer and disposal of assets are in place, and the partial information is included in the annual financial reports, this dimension is rated C.

### **Recent or ongoing reform activities**

- The government is in the process of developing an Assets Policy, which will provide guidelines on how to manage and monitor government assets.



- The government has implemented the IFMIS with an asset module which needs to be fully used.
- The government is also in the process of developing a strategy and road map for the migration from IPSAS cash accounting to accrual to improve financial accounting and reporting.

#### 4. PI-13 Debt management

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements.

Indicator/Dimension	Score	Brief Explanation
PI-13 Debt management (M2)	C	The Procedures Manual is in draft form and the debt management strategy in use ended in 2011 and is being revised.
13.1 Recording and reporting of debt and guarantees	B	Information on foreign debt and loan guarantees are recorded at least quarterly. The government uses the DMFAS for recording foreign debt. Domestic debt records are captured and reconciled daily using the Central Security Depository (CSD) by the Bank of Zambia.
13.2 Approval of debt and guarantees	C	Primary legislation grants authorization to borrow, issues new debt and loan guarantees. However, the Procedures Manual is in draft and is awaiting the government's approval. There are no documented policies and procedures to guide the debt contracting process.
13.3 Debt management strategy	D	The DMS in place is outdated as it covered the period 2008 to 2011. A new DMS is being developed by the government.

#### **Dimension 13.1 Recording and reporting of debt and guarantees**

The IDM Office in the MoF is responsible for the management of both internal and external debt. IDM is responsible for the monitoring and evaluation of the performance of Government investments and the management of Government's debt stock, both domestic and external. The Department is also responsible for managing a comprehensive database for the country's domestic & external debt, meeting debt service payment obligations and is involved in the operations of the capital market in order to satisfy Government cash flow requirements. The amended constitution provides that borrowing and lending by the government shall be approved by the National Assembly. The Loans and Guarantees Authorization Act gives authority to contract loans and guarantees to the MoF. Annual and quarterly public debt service and stock reports are produced and published.

Loans and guarantees are authorized by the 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. The DMAS system is used to manage the debt stock.

#### **Dimension 13.2 Approval of debt and 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 authorizes 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.

The IDM Department is the only entity responsible for monitoring of both domestic and external debt including guarantees while the National Assembly provides parliamentary oversight. However, it must be noted that the 2016 amended constitution provides the legislature powers to approve loan contraction and guarantees in addition to providing oversight.

### **Dimension 13.3 Debt management strategy**

The debt management strategy being used is outdated because it expired in 2011 and has not yet been replaced. Recent or ongoing reform activities

- The DMS is being further developed in accordance with the new constitution.

## **Pillar IV. Policy-based fiscal strategy and budgeting**

### *1. PI-14 Macroeconomic and fiscal forecasting*

A credible fiscal strategy should support the achievement of the government’s fiscal policy objectives. This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability and reliability of budget allocations. It also assesses the government’s capacity to estimate the fiscal impact of potential changes in economic circumstances.

<b>Indicator/Dimension</b>	<b>Score</b>	<b>Brief Explanation</b>
PI-14 Macroeconomic and fiscal forecasting (M2)	B	Performance was fair, however; the lack of complete transparency through independent review of the forecasts and tabling of forecast explanations negatively impacted the scores.
14.1 Macroeconomic forecasts	B	Forecasts of key macroeconomic indicators and underlying assumptions cover a three-year rolling period and are updated annually.
Projections are formulated and reviewed by various government entities such as the BoZ and these are further submitted to the committee of Permanent Secretaries and then to Cabinet for approval.		
14.2 Fiscal forecasts	B	The government prepares forecasts of Inflation, GDP Growth, Interests Rates, Exchange rates and revenues by type (VAT, Income Tax, Customs and Excised Duties, non-tax collected by MPSAs and Financing) which are approved by Cabinet in the Green Paper. The Green Paper is immediately published in print media and forwarded to the legislature and other stakeholders for comments. Thereafter, the final estimates forecasts are submitted to the legislature for approval through the Budget Speech before the commencement of each Financial Year.

14.3 Macro-fiscal sensitivity analysis	B	The government prepares the sensitivity analysis for internal use. Furthermore, in the published MTEF, government includes the discussions on the fiscal or macro risks which accounts for any sensitivities in the forecast under consideration
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### **Dimension 14.1 Macroeconomic forecasts**

Forecasts of key macroeconomic indicators and underlying assumptions cover a three-year rolling period and are updated annually. Projections are formulated and reviewed by various government entities such as the BoZ and these are further submitted to the committee of Permanent Secretaries and then to Cabinet for approval.

The system for preparing the macroeconomic forecasts is guided by principles set out in the Constitution Part XVI Article 198 (a) - transparency and accountability in the development or formulation of macro frameworks, social-economic plans, and the budget. Preparation of the macroeconomic forecasts and estimates of revenue is transparent in that invitations to make submissions on the measures to be adopted by the government are placed in the print media. Engagements with important stakeholders in sectors such as the mining, manufacturing, agriculture, and energy are conducted before the preparation of the macroeconomic forecast. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate are included in the budget papers (Green paper, Call Circular, and Budget Speech). Projections benefit from wide internal consultations.

### **Dimension 14.2 Fiscal forecasts**

The Budget Documentation which includes the MTEF and contains fiscal forecast is submitted to the legislature for comments before the annual budget is prepared. Thereafter the annual budget in line with the Constitution, Part XVI Article 202 (1) is presented by the Minister responsible for finance before the National Assembly in each preceding financial year not later than 90 days before the commencement of the next financial year, estimates of revenue and expenditure for the Republic.. In summary, preparation starts with submitting the budget concept paper to Cabinet with an update of the macro-fiscal framework and revenues by type (VAT, Income Tax, Customs and Excised Duties, non-tax collected by MPSAs and Financing) for a three-year horizon.

### **Dimension 14.3 Macro-fiscal sensitivity analysis**

Furthermore, in the published MTEF, government includes the discussions on the fiscal or macro risks which accounts for any sensitivities in the forecast under consideration. The various scenarios developed are differentiated by measures and/or resources and are focused on addressing the question of what would happen if certain decisions were not made or made in the period under consideration. They are prepared for internal use.

### **Recent or ongoing reform activities**

No reforms are under way.

## **2. PI-15 Fiscal strategy**

The fiscal strategy contains fiscal policy objectives that should have specific quantitative and qualitative targets and constraints against which the impact of revenue and expenditure policy proposals can be assessed during budget preparation.

<b>Indicator/Dimension</b>	<b>Score</b>	<b>Brief Explanation</b>
PI-15 Fiscal strategy (M2)	A	The fiscal strategy is provided to the legislature as part of the budget process and progress is explained in the Budget Speech.
15.1 Fiscal impact of policy proposals	B	Annual information is provided to the legislature through the Budget Speech while the Green Paper provides information for the medium term (3 year period).

15.2 Fiscal strategy adoption	A	The Green Paper provides explicit time-based quantitative fiscal goals and target information for the medium term (3 year period). The information is consolidated in the Budget Speech submitted to the legislature and subjected to debates.
15.3 Reporting on fiscal outcomes	A	The Budget Speech is submitted with the annual budget which contains a section that reviews performance and gives reasons for any deviation from the objectives and targets set before providing the next course of action. This is the practice followed for all years up to the most recent year for which budget speech is presented.

### **Dimension 15.1 Fiscal impact of policy proposals**

Annual detailed information is provided to the legislature through the Budget Speech and the Green Paper provides the forecasts for the three years of the medium term. A Tax Policy Review Committee is constituted annually and receives proposals from the general public. It assesses the social, economic, and revenue impact of proposals received in preparation for incorporation in the national budget. On the expenditure side, policy objectives for the medium term and budget ceilings are issued in a Call Circular and submissions from MPSAs are considered by the ST and the team for incorporation in the budget.

### **Dimension 15.2 Fiscal strategy adoption**

The fiscal strategy for the medium term is first published through the Green Paper (consultations) and the final position in the Budget Speech and is made available to the public immediately after the MoF makes the presentation. The Green Paper provides explicit time-based quantitative fiscal goals and target information for the medium term (3-year period).

### **Dimension 15.3 Reporting on fiscal outcomes**

The progress made against fiscal targets is reported in the Green Paper and the Budget Speech. The Budget Speech is submitted with the annual budget which contains a section that reviews performance and gives reasons for any deviation from the objectives and targets set before providing the next course of action. Further, information is provided through the economic reports.

### **Recent or ongoing reform activities**

No reforms are under way.

### **3. PI-16 Medium-term perspective in expenditure budgeting**

Expenditure policy decisions have multiyear implications and need to be aligned with the availability of resources in the medium term. The resulting medium-term expenditure estimates should be reconciled with fiscal aggregates determined through the fiscal strategy in the budget. This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings.

<b>Indicator/Dimension</b>	<b>Score</b>	<b>Brief Explanation</b>
PI-16 Medium-term perspective in expenditure budgeting (M2)	B	There is partial adherence with the requirements for aligning the budget to strategic plans and for explaining changes to expenditure estimates in the budget documents.
16.1 Medium-term expenditure estimates	A	The estimates of expenditure are provided for a three-year horizon by administrative, economic and functional classification. These classifications are also provided for in the Yellow Book

16.2 Medium-term expenditure ceilings	A	Cabinet approves the proposed ceilings for the expenditure heads before the issuance of the Call Circular to MPSAs.
16.3 Alignment of strategic plans and medium-term budgeting	C	The alignment of expenditure proposals is not usually done by some MPSAs.
16.4 Consistency of budgets with previous estimates	C	The budget documents provide explanations for some of the changes to expenditure estimates.

### ***Dimension 16.1 Medium-term expenditure estimates***

The Constitution Part XVI Article 202 (1) requires that the Minister responsible for finance lay before the National Assembly in each financial year not later than 90 days before the commencement of the next financial year, estimates of revenue and expenditure. The forecasts for the coming 3 years are prepared each year on a rolling basis and are reflected in the Medium-Term Fiscal Framework and the MTEF (the Green Paper). The forecasts are provided for the main administrative, economic and functional (COFOG) categories. These classifications are also provided for in the Yellow Book

### ***Dimension 16.2 Medium-term expenditure ceilings***

Cabinet approves the proposed ceilings for the expenditure heads before the issuance of the Call Circular to MPSAs. When the estimates of expenditure are produced by the various MPSAs, the MoF reviews them to check their alignment with the overall mandate of institutions through the fiscal policy objective; and that these submissions are within the indicative ceilings as provided in the Call Circular.

### ***Dimension 16.3 Alignment of strategic plans and medium-term budgets***

The instrument for medium-term planning is the NDP which cover a five year horizon. In addition, it is a requirement that Ministries prepare and update their five year strategic plans which in some cases are aligned to the MTEF and the NDP. However, some ministries have strategic plans that are out of date and require updating and alignment to the NDP and MTEF. The only drawback with the strategic plans that are prepared is that they are not costed. The annual budget is used to implement these medium term plans. Before the development of the concept note for Cabinet and formulation of the Green Paper, strategies with detailed costings of recurrent and capital expenditures should be updated to be consistent with the NDP. However, the public investment management framework underlying investments is not yet fully functional.

### ***Dimension 16.4 Consistency of budgets with previous year's estimates***

The budget documents provide explanations for some of the changes to expenditure estimates. Proposed investments are based on sector strategies and recurrent costs implied by these investments are considered 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 Sixth National Development Plan) and recurrent cost implications in accordance with sector allocations and are included in forward budget estimates for the sectors. However, the reasons for differences between multiyear estimates and subsequent MPSAs ceilings are not clearly set out.

Recent or ongoing reform activities

The Planning and Budgeting Policy is in place and the Planning and Budgeting Bill is being prepared and is expected to assist in the alignment of strategic plans and medium-term budgeting. It is also anticipated that this reform will aid in improving the consistency of budgets with previous estimates.

## ***4. PI-17 Budget preparation process***

A well-planned, well-executed budgeting process is vital for ensuring that the budget—as a policy statement that applies relative spending levels for a variety of programs and activities—reflects the intended fiscal and sector policies of the government.

Indicator/Dimension	Score	Brief Explanation
PI-17 Budget preparation process (M2)	B+	Good performance except for the inadequate time given to MPSAs for budget preparation after ceilings are notified in the Call Circular.
17.1 Budget calendar.	C	The average period given to MPSAs for budgeting is 2—3 weeks and some do exceed the deadline.
17.2 Guidance on budget preparation	A	The Call Circular is comprehensive and covering total budget expenditures for a full fiscal year and ministry level budget ceiling are provided. It is distributed to all MPSAs immediately after Cabinet approval.
17.3 Budget submission to the legislature	A	In all the last three budgets, submission has been made on the second Friday of October as per constitutional requirement.

### **Dimension 17.1 Budget calendar**

The budget preparation process commences in April with holding of policy hearings and advertisement/invitations of proposes from the public which mainly relate to tax policy. A concept note is then submitted to Cabinet and thereafter the Green Paper is formulated around June–July.

Budget guidelines (Call Circular) issued to MPSAs in August and submission by early September and budget hearings within the same month approximately in 2 weeks. Most MPSAS meet the budget deadlines while a few do not. However, the deadline for submission to the National Assembly is met as the Ministry of Finance ensures that there is some time buffer for those institutions that submit late to the Ministry of Finance for consolidation. The finalization of the estimates follows with printing and submission to the National Assembly by the second Friday of October.

**Table 3.15: Budget Calendar**

	Circulation of Budget Call Circular to MPSAs	Deadline for MPSAs to Submit their Detailed Estimates to the MoF
2012 budget	August 12, 2011	September 5, 2011
2013 budget	September 6, 2012	September 14, 2012
2014 budget	August 2013	September 9, 2013
2015 budget	August 2014	September 5, 2014

Source: MoF.

### **Dimension 17.2 Guidance on budget preparation**

The Call Circular is comprehensive and covering total budget expenditures for a full fiscal year. Further it contains clear guidelines, assumptions and ministry level budget ceilings to be followed in preparing the budget estimates are provided. This is in addition to the fact that the ceilings in the Budget Call Circular are circulated to MPSAs after approval by Cabinet.

The guidance is for institutions to ensure that the allocation of resources is in line with the priorities as contained in the NDP so as to improve the lives of the people and for the Treasury to ensure that there was political involvement in the process, all submission are made under the signature of the Minister in each respective institution.

### **Dimension 17.3 Budget submission to the legislature**

In all the last 3 years, budgets have been submitted to the legislature on the second Friday of October as per constitutional requirement.

Recent or ongoing reform activities

The Planning and Budgeting Policy is in place and the Planning and Budgeting Bill is being prepared to legislate the planning and budgeting processes and timelines.

## 5. **PI-18 Legislative scrutiny of budgets**

The power to give the government authority to spend rests with the legislature and is exercised through the passing of the General Appropriations Act. This indicator considers the extent to which the legislature scrutinizes, debates, and approves the annual budget.

Indicator/Dimension	Score	Brief Explanation
PI-18 Legislative scrutiny of budgets (M1)	B+	Robust legislative procedures for budget scrutiny exist which leads to timely approval of the annual budget. However, the review does not extend to medium-term fiscal forecasts and priorities.
18.1 Scope of budget scrutiny	B	This takes place through the debates on the Budget Speech and the Yellow Book as well as on revenue bills for the coming year with less focus on the MTEF.
18.2 Legislative procedures for budget scrutiny	B	This is done and the Estimates Committee conducts the specialized reviews.
18.3 Timing of budget approval	A	All the three budgets were approved in December.
18.4 Rules for budget adjustments by the executive	B	Clear rules existed during review period for in-year budget adjustments. Administrative reallocations occurred.

### **Dimension 18.1 Scope of budget scrutiny**

The legislature begins by debating the Minister's Budget Speech which covers fiscal policies and performance of the current and previous year. Thereafter, debate on the details of expenditure and revenue commences on the money bills and the expenditures for each MPSA.

Estimates Committees within the National Assembly are responsible for scrutinizing 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 macrofiscal aggregates), the Yellow Book, the Financial Report, and the Establishment Register for each MPSA and prepares a report for the House. The National Assembly 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 National Assembly also reviews the Green Paper (MTEF), but has no formal approval role, as the Paper is not fully formalized as part of the budget preparation process.

### **Dimension 18.2 Legislative procedures for budget scrutiny**

Procedures in the National Assembly are determined by the independent standing orders (SOs) of the Parliament. Procedures are well established and respected. The 2005 SOs provide the rules of procedure which are approved in advance. The Expanded Estimates Committee is a specialized review committee that meets to scrutinize the budget estimates and is supported by technical staff from the Research Department of the National Assembly and there are procedures for negotiations on the estimates of revenue and expenditure. The Committee also has powers to call both Government and external experts to come and provide their expert views on the proposed budget estimates.

### **Dimension 18.3 Timing of budget approval**

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 December 31. This gives the National Assembly about 2 months to review the proposed budget. The budgets for 2010–12 were all approved in December of the previous year. Presidential assent comes two to three days after approval. The date of approval of the Appropriations Act is written on the Act document.

## **Dimension 18.4 Rules for budget adjustments by the executive**

The rules for in-year amendments without the approval by the legislature are provided for in the in the Public Finance Act of 2004 and expanded upon in the Financial Regulation of 2006. These regulations specify the changes that could be made to the approved estimates by way of variation by the Controlling Officer and the Secretary to the Treasury. Financial Regulation No. 31 (i) requires that where excess expenditure on one item can be met from savings on another item within the program not being a program for PEs, an application for Treasury authority for approval goes to the ST.

The Constitution provides scope for 'excess expenditure' (spending during a year that exceeds the limits provided in the Appropriations Act) being approved later by the National Assembly through an Excess Expenditure Appropriations Act following the submission of the audited financial statements to the National Assembly. The 2006 Financial Regulations allow for the Excess Expenditure Appropriations Bill to be submitted to the National Assembly within a period of 30 months after the end of the financial year to which it refers to.

### **Recent or ongoing reform activities**

Under the new constitution excess expenditure is no longer permissible, and any excess expenditure must be approved a priori except in cases of specified emergencies where warrant has to be obtained from the President.

### **Pillar V. Predictability and control in budget execution**

#### **1. PI-19 Revenue administration**

The government's ability to collect revenues when due is an essential component of any PFM system. It is also an area where there is a direct interaction between individuals and enterprises on the one hand and the state on the other.

The ZRA runs a transparent revenue administration system in terms of accountability to its stakeholders. It is governed by an Act of Parliament, Chapter 321 of the Laws of Zambia enacted in 1993, under which it is obligated to produce an annual report that is submitted to the Ministry of Finance and tabled in Parliament. A three-year strategic plan is also produced that lays out the focus of the Authority across a number of facets including customer satisfaction where the needs of taxpayers are taken care of. Easy access to information for the taxpayers is availed through several channels including leaflets, Website, Facebook Page, Call Center, Taxpayer Service Centre, Advice Center, notices, and advertisements in the electronic and print media. Others are taxpayer workshops, open days, road shows, and consultative meetings. The Authority has gone further by producing a Client Service Charter in which it has committed itself to meeting set service standards for the benefit of taxpayers.

<b>Indicator/Dimension</b>	<b>Score</b>	<b>Brief Explanation</b>
PI-19 Revenue administration (M2)	C+	Arrears are high and some uncollectable. More use of electronic payments could improve collections. Investigations should be programmed within the overall compliance plan.
19.1 Rights and obligations for revenue measures	A	Taxpayers have easy access to comprehensive and up-to-date information on their rights and obligations through channels including official website, Facebook page, call center, client service desks/advise center, billboards, brochures, print and electronic media, taxpayer workshops, and client service charters. Information is also available on redress processes and procedures including the appeals process to the tax appeals tribunal which has been established by the Tax Appeals Tribunal Act of 2015.
19.2 Revenue risk management	B	There is a structured and systematic approach in place to assess and prioritize compliance risks made possible by the implementation of web-based administration systems for both domestic taxes (Taxonline) and customs (Asycudaworld) application to all taxpayer segment. However, whereas payments for insurance levy can be made electronically on Taxonline, its returns are still being managed outside the system.



19.3 Revenue audit and investigation	D	A compliance plan indicating planned audits is in place for normal customs and domestic taxes but not for investigations.
19.4 Revenue arrears monitoring	D	The 2015 stock of revenue arrears was 131% while the average revenue arrears older than 12 months were 64%. A dedicated Debt Recovery Unit (DRU) has recently been established in the Finance Division.

**Note:** Some information for this PI has also been sourced from the Tax Administration Diagnostic Assessment Tool (TADAT) report.

**Table 3.16: National Government Revenues**

	2013	2014	2015
	(K, millions)	(K, millions)	(K, millions)
Corporate income tax (CIT)	2,852.30	3,487.80	2,846.40
Personal income tax (PIT)	5,738.70	6,426.80	7,444.10
VAT—gross domestic collections	5,363.60	6,483.60	7,563.40
VAT—collected on imports	6,178.30	6,396.60	6,703.90
VAT—refunds approved and paid	(4,178.00)	(3,326.40)	(6,030.50)
Excises on domestic transactions	1,343.50	1,916.20	2,293.30
Excises—collected on imports	996.00	937.70	960.60
Other domestic taxes	3,039.60	3,310.50	6,217.20
Total revenue	21,334.00	25,632.80	27,998.40

**Source:** TADAT Table A, page 51.

### **Dimension 19.1 Rights and obligations for revenue measures**

The Zambia Revenue Authority has two operating divisions; Customs Services Division and Domestic Taxes Division. It operates under the Zambia Revenue Authority Act, and collects the predominant share of revenues and taxes including CIT, PIT, VAT, and Excise Duty.

A wide range of tax information including the law, tax forms, practice notes and frequently asked questions is available on various media. The ZRA provides all taxpayers with information on their obligations, with respect to registration, filing, payment, and accurate reporting of information in declarations. Taxpayer entitlements under tax laws and procedures exist and are tailored to the taxpayers' specific needs. Information is available for all segments (small taxpayers, medium taxpayers, and large taxpayers). There is specialized information for industry groups, for example, the mining industry. Some of the available material is translated into local languages. The wide range of information products in place includes television commercials, advertisements in printed media, billboards, leaflets, and information on the website (<http://www.zra.org.zm/>) and the Official ZRA Facebook Page (<https://www.facebook.com/ZambiaRevenueAuthority/>). Contact numbers for the Call Centre are also available on the Website including frequently asked questions. Taxpayer outreach programs are also carried out on a regular basis—the activities are planned and reported upon. There are also specific events focused on tax intermediaries.

Information is also available on redress processes and procedures including the appeals process to the Tax Appeals Tribunal which has been established by the Tax Appeals Tribunal Act of 2015. This act covers the functions,

appeals process, proceedings, and decisions of the tribunals and the appeals process to the Supreme Court. This act is available to the members to the public through the websites, road shows and exhibitions. Tax payers have access to the tribunal websites and their offices are easily accessible.

### **Dimension 19.2 Revenue risk management**

For customs purposes, the concept of risk management is applied as a trade facilitation tool on the Asycuda World System. The application of the risk management concept in trade facilitation is currently being extended to other government agencies involved in trade logistics through the implementation of an electronic single window. Customs duties in 2015 were about 15% of revenues collected by ZRA; the others were by ZRA from domestic taxes.

For domestic taxes, risk management is implemented in all business processes in registration, filing, payment, audit, and refunds. The organization structure of the Domestic Taxes Division (DOMT) is built around functions aimed at managing the main pillars of compliance as detailed below:

- Registration is managed by taxpayers services units responsible for identifying and registering taxpayers eligible to register for tax. Control systems and procedures are in place to ensure that the risks associated with registration are minimized.
- Filing and payment compliance is managed by Returns and Payments (Accounts) Units. These units are responsible for maintaining taxpayer accounts and ensuring that returns and payments are made when they are due. Compliance reports are generated periodically and noncompliant taxpayers are engaged and penalized where necessary. Systems and procedures are in place.
- Audit units are also in place under the different tax offices (direct and indirect tax offices) with the necessary procedures for conducting risk-based audits.
- The refund process is automated and strictly monitored. A refund is only paid once a taxpayer meets credibility parameters. Most refunds are subjected to audits before they are paid.

### **Dimension 19.3 Revenue audit and investigation**

A full-fledged Investigations Department is 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). These are ably supplemented by specialized units in the DOMT that conduct specialized audits on mining, transfer pricing, and high-net-worth individuals. Under Customs Services there is a Mobile Compliance Unit that deals with smuggling. Whereas ordinary audits are managed and reported on according to comprehensive and documented audit plans that are risk based, the fraud investigations, though risk based too, do not follow a documented plan in terms of the targeted number of investigations.

### **Dimension 19.4 Revenue arrears monitoring**

Two measurement dimensions are used to gauge the size of the administration’s tax arrears inventory: (a) the ratio of year-end tax arrears to the denominator of annual tax collections and (b) the more refined ratio of year-end ‘collectible tax arrears’ to annual collections. A third measurement dimension looks at the extent of unpaid tax liabilities that are more than a year overdue. On average the year-end arrears were 88 percent of annual core tax collected during 2013–2015. Over 70 percent were more than 3 years old.

**Table 3.17: Domestic Tax Arrears as of Year-End**

<b>Taxable Year</b>	<b>Core Revenue CIT+PAYE+VAT (K, billions)</b>	<b>Arrears (K, billions)</b>	<b>% Collectible Ar- rears That Are Old- er Than 12 Months</b>	<b>Total Collectible Tax Arrears as % of Revenue</b>
2013	15.9	8.5	76	53
2014	19.5	15.5	73	80
2015	18.5	24.4	64	131

**Source: TADAT Table 11, page 59.**

**Note: PAYE = pay as you earn.**

### Recent or ongoing reforms activities

ZRA has created a Tax Appeals Unit under the Commissioner General's Office that is independent of the operating divisions where assessments are raised.

## 2. PI-20 Accounting for revenues

This indicator assesses procedures for recording and reporting revenue collections, consolidating revenue collected, and reconciling tax revenue accounts. It covers both tax and nontax revenue collected by the central government.

Indicator/Dimension	Score	Brief Explanation
PI-20 Accounting for revenues (M1)	B+	All indicators performed well except that in the year of cut off data the performance was below 90%.
20.1 Information on revenue collection	B	The ZRA submits to the MoF tax revenue data at least monthly and the information is broken down by revenue type and is consolidated into a report.
20.2 Transfer of revenue collections	A	Tax revenue is transferred into Treasury-controlled accounts on a daily basis.
20.3 Revenue accounts reconciliation	A	Tax revenue reconciliations are done on a daily basis.

### Dimension 20.1 Information on revenue collections

The Ministry of Finance is responsible for formulating policy on revenue generation for the Government. However, there are in place statutory bodies that have been established to collect Revenue on behalf of the Ministry. These include but not limited to the following institutions, Zambia Revenue Authority, Ministry of Lands and Natural Resources, Ministry of Home affairs (Departments of Immigration and National Registration), Ministry of Commerce (under PACRA), Citizenship), Road Development Fund, etc. It must be noted that the ZRA collects the bulk of the revenue and this represents 91%, 91% and 85% of the total Revenue collected for the financial year ended 31st December 2013, 2014 and 2015 respectively (Refer to Tab 3.18) below. These Revenues collecting institutions are responsible for collection, accounting for the revenue and providing timely information to the Ministry of Finance on the Revenues collected.

The ZRA and other revenue collection entities submits to the Ministry of Finance tax and non-tax revenue data at least monthly and the information is broken down by revenue type and is consolidated into a report. The ZRA has good accounting systems that meet government standards. Payments are posted within two days and the system is audited regularly.

**Table 3.18: Revenue Composition**

Type of Revenue	FY 2013	FY 2014	FY 2015
Tax Revenue	22,431,705,997	26,835,426,951	28,898,116,931
Non Tax Revenue	2,163,677,593	2,814,159,918	5,252,329,247
Total	24,595,383,590	29,649,586,869	34,150,446,178
Tax Revenue as % of Total Revenue	<b>91</b>	<b>91</b>	<b>85</b>

**Source:** Audited Financial Report for 2013, 2014 and 2015

### Dimension 20.2 Transfer of revenue collections

Revenue collecting agencies have been authorized by the Treasury to open a number of designated bank accounts in Commercial Banks.

It is a requirement under the service level agreement signed between the Treasury and Commercial Banks that revenue deposited/paid into these revenue accounts must be transferred with 48 hours to the Consolidated Fund held at the Central Bank. Therefore Tax and Non-Tax revenue is transferred into the Consolidated Fund Account on a daily basis through an automated sweeping system. The tax revenue collected by the ZRA is quite significant as indicated under PI 20.1 above and timely transfers have enabled the Treasury to effectively manage its cash balances well.

### **Dimension 20.3 Revenue accounts reconciliation**

Tax revenue collected is aggregated and reconciled on daily basis. The assessments/ charges, collections and arrears and transfers to the Treasury or designated Revenue Collection Agencies take place regularly and are reconciled at least on a weekly monthly and quarterly basis. As the tax revenues form a large component of revenue averaging more than 89% of total revenues, it is important that reconciliations are undertaken regularly. The ZRA has also set up a Debt Recovery Unit (DRU) to follow-up on tax arrears and debt. Non – tax revenue is also reconciled on a monthly and quarterly basis.

#### **Recent or ongoing reform activities**

There is now a dedicated DRU that is being capacitated in debt management.

### **3. PI-21 Predictability of in-year resource allocation**

This indicator assesses the extent to which the MoF is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery.

<b>Indicator/Dimension</b>	<b>Score</b>	<b>Brief Explanation</b>
<b>PI-21 Predictability of in-year resource allocation (M2)</b>	C+	MPSAs are not given reliable commitment limits to enable effective management of commitments for implementation of their programs. This results in excess expenditures as well as arrears.
21.1 Consolidation of cash balances	C	Most cash balances are consolidated on a monthly basis. However, for the 10 sites on the TSA balances are consolidated automatically in real time through electronic access to most of the bank accounts, thus providing the Treasury the flexibility to consolidate the bank balances and fund activities as they fall due.
21.2 Cash forecasting and monitoring	B	Cash flow forecast reports (game plan reports) are prepared within the IFMIS (for MPSAs on the IFMIS) and are available to authorized users in the Budget Office who are able to consolidate the cash flows of all MPSAs on a quarterly basis.
21.3 Information on commitment ceilings	C	Quarterly funding profiles are available and provided to budgetary units one month in advance.
21.4 Significance of in-year budget adjustments	C	Supplementary Provision Warrants are available for each financial year. The adjustments to the budget are done whenever a need arises in accordance with the laid-down law and procedures.

### **Dimension 21.1 Consolidation of cash balances**

Currently the TSA has been rolled out to 10 sites and the bank accounts of these sites have been closed and the cash balances consolidated into the TSA account at the BoZ. However, there are 13,242 bank accounts for MPSAs that are not on the TSA. With the establishment of the Treasury Services Unit, all commercial banks providing banking services to GRZ have provided electronic access to most of the bank accounts, thus providing the Treasury the flexibility to consolidate the bank balances and fund activities as they fall due.

The Electronic Communications and Transactions, Act, 2009 and Information, Communications and Technologies Act support electronic processing of transactions. Cash consolidation for Institutions not on the TSA is done on a monthly basis.

### ***Dimension 21.2 Cash forecasting and monitoring***

Cash flow forecasts are prepared by Treasury annually in consultation with budgetary units which are Zambia Revenue Authority and Ministries, Provinces and other Government institutions. These institutions then submit on monthly basis revenue returns indicating actual revenue collected and reasons for variances against the estimates. The Treasury also reconciles on a monthly basis revenue returns with bank statements to ascertain the actual revenue reflected in the Treasury bank accounts. The cash flows are updated on quarterly basis by the Treasury. Cash flow forecast reports (game plan reports) are prepared within the IFMIS (for MPSAs on the IFMIS) and are available to authorized users in the Budget Office who are able to consolidate the cash flows of all MPSAs on a quarterly basis.

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 analyzed by the MoF to match them with projected resources and are intended to provide the basis for the establishment of quarterly allocation ceilings. Annual cash flows are made at the start of each financial year; however, cash flow forecasts are reviewed on a quarterly basis to accommodate any changes that may have occurred during the year. Revenue returns submitted to the Treasury by ministries, provinces and other institutions with reasons for variances against estimates are available for scrutiny

Daily revenue projections and revenue collected by Zambia Revenue Authority are also emailed to the Treasury for consolidation in the cash flow reports.

### ***Dimension 21.3 Information on commitment ceilings***

Budgetary units are provided with information on funding on a monthly basis. Ceilings are provided to institutions on a monthly basis. However, the Treasury communicates to institutions when there are cash flow problems to enable institutions prioritize expenditures.

### ***Dimension 21.4 Significance of in-year budget adjustments***

Supplementary Provision Warrants are available for each financial year. The adjustments to the budget are done whenever a need arises in accordance with the laid-down law and procedures.

Significant adjustments to in year budget takes place once a year after several submissions are received by the Treasury from Ministries, provinces and other institutions. Institutions are required to submit adjustments to the budget by August in each fiscal year for consideration by the Treasury. The Treasury then consolidates the individual submissions and presents a consolidated submission to the National Assembly for approval. The approval by National Assembly is through the Supplementary Bill. This document is available for consideration and is also on the Republic of Zambia National Assembly website.

The upward adjustment to the 2015 budget was K14.4 billion bringing the total budget to K61.15billion from the original budget of K46.67billion. In terms of percentages, the upward adjustment to the budget was 30%.

### ***Recent or ongoing reform activities***

The TSA is currently being rolled out and 10 sites have so far been covered. Once fully rolled out to all government institutions, cash balances will automatically be consolidated in real time.

#### ***4. PI-22 Expenditure arrears***

This indicator measures the extent to which there is a stock of arrears and the extent to which a systemic problem in this regard is being addressed and brought under control.

Indicator / Dimension (M1)	Score	Brief Explanation
PI-22 Expenditure arrears (M1)	D+	There is regular monitoring of arrears. However, the drawback is lack of predictable funding, which results in the build-up of arrears leading to the overall amount being more than 10% for the 4 consecutive years as per latest Internal Audit Report on 2015 and 2016 arrears.
22.1 Stock of expenditure arrears	D	The initial reports for 2013 and 2014, obtained from Controller of Internal Audit showed that expenditure arrears were less than 2% of total expenditure. However, the latest report on the verification of arrears for 2016 indicates a sharp increase of more than 10% of total expenditure. The information on the stock of arrears is incomplete for 2013, 2014, and 2015 as it does not include arrears from other big spending agencies as per the latest Internal Audit Report on the Verification of Arrears for 2015 and 2016. If the information in the latest report is extrapolated to include omitted arrears for 2014 and 2015, the percentage for the 2 years will be more than 10%.
22.2 Expenditure arrears monitoring	B	<p>The accounting staff in MPSAs currently record and monitor expenditure arrears outside the IFMIS. The IFMIS currently does not provide the functionality for recording, analyzing, and monitoring of arrears. The record shows the age and movement of the arrears and the data on the stock and composition of arrears are ready within 8 weeks of the end of the quarter as per reports kept by MPSAs.</p> <p>The Controller of Internal Audit regularly verifies the arrears on a quarterly basis to ensure that the records are up-to-date and the arrears are legitimate. The Controller produces a report on the extent of all central government arrears in MPSAs.</p>

### **Dimension 22.1 Stock of expenditure arrears**

Expenditure payments arrears in Zambia are defined by convention as payments more than 30 days overdue. The most recent available data on expenditure arrears, as provided by the Controller of Internal Audit who verifies domestic arrears quarterly, are included in the annual report for the year ending December 31, 2016, and shows arrears of K 16.697 billion, which is more than 10 percent of the 2016 expenditure. The efforts of the GRZ to reduce arrears are shown in the 2015–2017 MTEF (Green Paper) that states that in keeping with government efforts to reduce arrears owed to suppliers of goods and services, the government proposed to spend K 382.0 million in 2015 and K 354.1 million in both 2016 and 2017.

The reports for 2013, 2014, and 2015 obtained from the Controller of Internal Audit shows that expenditure arrears were less than 2 percent of total expenditure. However, the latest report for 2016 indicates a sharp increase of arrears of more than 10 percent and the Controller has also indicated in the latest report that the information on the stock of arrears is incomplete for 2013, 2014, and 2015 as it does not include arrears from the FRA, FISP, Road Development Agency, and electricity and fuel subsidies. If the information in the latest report is extrapolated to include omitted arrears for 2013, 2014, and 2015, the percentage for the 3 years will be more than 10 percent and consequently lead to a D score.

Arrears in respect of recurrent departmental charges (RDCs) mainly comprise utility bills for police and military camps. As a measure to reduce these arrears, the Controller has recommended that MPSAs switch to prepaid utilities services and installing separate electricity and water meters for individual households in police and military camps.

## **Dimension 22.2 Expenditure arrears monitoring**

The accounting staff in MPSAs currently record and monitor expenditure arrears outside the IFMIS. The IFMIS currently does not provide the functionality for recording, analyzing, and monitoring of arrears.

The record maintained outside the IFMIS shows the age and movement of the arrears. The Controller of Internal Audit regularly audits the arrears on a quarterly basis to ensure that the records are up-to-date and the arrears are legitimate. The Controller produces a report on the extent of all central government arrears in MPSAs. The information on the stock of arrears is readily available in MPSAs within 8 weeks after the end of each quarter and available for verification by the Controller. The available reports on expenditure arrears for the purpose of this assessment are for the last 4 fiscal years: 2013, 2014, 2015, and 2016.

The Controller working in conjunction with Internal Auditors and accounting staff in MPSAs ascertains the level of arrears every quarter, supported by checking of commitment and expenditure ledgers, payments vouchers, backing sheets, and actual bills.

### **Recent or ongoing reforms activities**

- The process has begun to enhance the IFMIS functionality to provide a complete commitment control system to facilitate the capture of all expenditure arrears.
- The TSA rollout, which is currently under way, is expected to help in the reduction in the accumulation of arrears.

## **5. PI-23 Payroll controls**

This indicator is concerned with payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls in PI-25.

<b>Indicator/Dimension (M1)</b>	<b>Score</b>	<b>Brief Explanation</b>
PI-23 Payroll controls (M1)	C+	Overall performance was poor because annual payroll audits do not exist.
23.1 Integration of payroll and personnel records	A	The approved staff list, personnel database, and payroll are directly linked to ensure budget control, data consistency, and monthly reconciliations.
23.2 Management of payroll changes	B	Changes to the payroll at all levels are supervised by staff from the P MEC. Payroll records and the payroll are updated at least quarterly.
23.3 Internal control of payroll	A	Authority to change records and the payroll is restricted and results in an audit trail.
23.4 Payroll audit	C	Payroll audits are not undertaken annually but partial payroll audits have been undertaken within the period under review.

## **Dimension 23.1 Integration of payroll and personnel records**

The automated P MEC has remained fully operational, directly linking personnel data and payroll data to ensure consistency and monthly reconciliation. Each government entity has an approved establishment register that is directly linked with the payroll. Introducing personnel on to the payroll requires the availability of a vacant and funded position in the establishment register. At the beginning of each fiscal year the approved payroll budget which is initially prepared in the ABB system is uploaded in both the IFMIS and the P MEC system. The payroll system provides for capturing of expenditure for personnel costs which is then uploaded into the IFMIS. Therefore, the linkage between the establishment register and the payroll and the upload of actual expenditure into IFMIS ensure effective budget control.

### **Dimension 23.2 Management of payroll changes**

Timeliness of payroll changes has improved due to the decentralization of payroll which enables authorized staff in MPSAs to make the required changes monthly to personnel records and payroll on the P MEC system at provincial administrations rather than traveling to Lusaka; and few retroactive adjustments are needed. The P MEC infrastructure has been decentralized up to the Provincial Administration Offices, and decentralization to the district level has commenced with Kafue and Siavonga being the pilot sites.

### **Dimension 23.3 Internal control of payroll**

Controls continue to be stringent. Only authorized (by the Controlling Officer) personnel have access to the P MEC, both at the central and provincial administration levels. Authority to change records and the payroll is restricted and results in an audit trail. Approved and audited payroll inputs are used to effect payroll changes.

### **Dimension 23.4 Payroll audit**

Internal Auditors in MPSAs check the payroll every month. Each Ministry has an internal audit establishment which is under the overall guidance of Controller of Internal Audit in Ministry of Finance. Internal auditors check the payroll on a monthly basis, as a regularity audit. Annual audits are not regularly done nor needed.

### **Recent or ongoing reform activities**

Projects to integrate the P MEC, human resource systems, and IFMIS are under way to enhance the integration and reconciliation of personnel records, payroll data, and financials.

Decentralization of the P MEC to all end users in MPSAs has continued and is being rolled out to districts.

## **6. PI-24 Procurement management**

Significant public spending takes place through the public procurement system. This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. The scope of the indicator covers the central government and all procurement of goods, services, and civil works whether classified as recurrent or capital investment expenditure (for example, including civil works and major equipment investments).

<b>Indicator/Dimension</b>	<b>Score</b>	<b>Brief Explanation</b>
PI-24 Procurement (M2)	C+	A database for procurements information is essential to enhance monitoring capability. More consistent publication arrangements are needed for procurement planning, dispute resolution, and procurement statistics.
24.1 Procurement monitoring	D	Data are maintained manually as there is no electronic system to monitor performance or a database system. Monitoring is achieved through review of procurement committee minutes, the annual procurement plan, quarterly reports, compliance assessments, procurement audits, and review of contracts. This process may be rigorous enough to provide accuracy for the majority of procurement methods, but there is no clarity.
24.2 Procurement methods	B	A sample of contracts indicated that competitive methods were used for over 70% of the value of contracts. The PPA No. 12 of 2008 and Public Procurement Regulations (PPR) of 2011 provide the rules of procedures. As per Regulation 8, of the PPR of 2011, the Second Schedule provides guidance on the applicable thresholds of procurement.



24.3 Public access to procurement information	C	Three key procurement information elements are available—regulatory framework, bidding opportunities, and contract awards. Others are more ad hoc.
24.4 Procurement complaints management	B	The appeals process satisfies criterion 1 and 3 other criteria.

### ***Dimension 24.1 Procurement monitoring***

This dimension assesses the extent to which prudent monitoring and reporting systems are in place within the government for ensuring value for money and promoting fiduciary integrity. Completeness refers to information on contracts awarded. The accuracy and completeness of information can be assessed by referring to audit reports. The PPA No. 12 of 2008 and PPR 2011 constitute 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 K 500,000 must be undertaken through open bidding, while procurements above K 300,000 for consultancy services must be undertaken using open selection methods. The PPA prescribes open bidding and open selection as the default methods of procurement.

MPSAs undertake all procurement processes and have unlimited thresholds approved by the procurement committees. There is no electronic database for monitoring procurements. The process is monitored through procurement plans and quarterly reports, supplemented by compliance assessments, review of contracts and procurement committee minutes, and the use of procurement audits.

### ***Dimension 24.2 Procurement methods***

Assesses the extent to which prudent monitoring and reporting systems are in place within the government for ensuring value for money and promoting fiduciary integrity.

The PPA No. 12 of 2008 in Section 25 provides that, except as provided for in the act, a procuring entity shall use open bidding for the procurement of all goods, works, and non-consulting services. This entails that open competition is the default method to obtain value for money through maximum competition. This dimension analyzes the percentage of total value of contracts awarded with and without competition. There is evidence that open competition is used widely through the procurement plans, review of procurement committee minutes, and quarterly reports submitted by procuring entities. A review of 15 sets of minutes from the Ministries of Health, Agriculture, Local Government, and Education for 2013–2015 indicated that the dimension was rated B with more than 70 percent or more of total value of contracts sourced competitively.

### ***Dimension 24.3 Public access to procurement information***

Key procurement information consists of the Public Procurement Act of 2008 and Regulations Of 2011, and Procurement Guidelines that regulate all public procurements. This information is readily available through public libraries, ZPPA website and hard copies that can be obtained from ZPPA or Government Printers.

For annual procurement planning, rules and detailed procedure exist in Section 42 of the PPA No. 12 of 2008 and Part V of the PPR 2011. The ZPPA issued Circular No. 4 of 2015 to guide MPSAs to use its website for publications. There is some compliance to these provisions; however, not all MPSAs undertake annual procurement planning. Most of the MPSAs that plan submit to the ZPPA for review but do not publish their plans in the newspapers due to costs, nor do they utilize the ZPPA website. However, plans can be accessed manually.

Bidding opportunities are advertised in the newspapers, ZPPA website and the government gazette by MPSAs for open national and international bidding.

Contract awards are advertised in the newspapers and the bidders are issued with a notice of best-evaluated bidder and contract award notifications by MPSAs for open/limited national and international bidding.

Data on resolution of procurement complaints are available. They are made available to parties involved.

Annual procurement statistics are available but not all the MPSAs comply with submission of procurement quarterly reports due to lack of a system.

The information provided on 50% of public procurement operations is accurate and reliable stored in a secure manner.

## ***Dimension 24.4 Procurement complaints management***

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

- (a) Is not involved in procurement transactions or in the process leading to contract award decisions
- (b) Does not charge fees that prohibit access by concerned parties
- (c) Follows processes for submission and resolution of complaints that are clearly defined and publicly available
- (d) Exercises the authority to suspend the procurement process
- (e) Issues decisions within the time frame specified in the rules/regulations
- (f) Issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority)

From the six listed criteria elements, the ZPPA satisfies four elements, which are elements (a), (c), (d), and (f). The following itemize the performance on the criteria.

- (a) Yes. The ZPPA has a regulatory role in public procurement and does not participate in public procurement transactions as the procurement system is decentralized. Rules and detailed procedure exist in the PPA No. 12 of 2008 and the PPR 2011. The ZPPA issued Circular No. 2 of 2015 to guide appellants on the three-tier appeal mechanism and the applicable fee. The three-tier appeal process begins with the procuring entity, if the bidder is not satisfied and appeals to the ZPPA and if the bidder is not satisfied and proceeds to arbitration.
- (b) No. A nonrefundable fee of K 1,000 is charged as per Section 70 (2) and Regulation 172 of the PPR 2011. This was communicated through Circular No. 2 of 2015 issued by the ZPPA.
- (c) Yes. Section 70 of the PPA No. 12 of 2008, Part XIV of the PPR 2011, and Circular No. 2 of 2015 issued by the ZPPA.
- (d) Yes. Section 7/0 (4) of the PPA No. 12 of 2008 and Regulation 173(1) of the PPR 2011 provide guidance to put the procurement on hold till the complaint is resolved.
- (e) No. Regulations 173 (3) and 174 (1) of the PPR 2011 provide guidance to make a decision within five working days of receipt of the appeal. However, most appeals have not been resolved within five working days at both the Personal Emoluments (PEs) and the authority. In case of the authority, failure to comply with the time frame due to late submission of documentation by the PEs.
- (f) Yes. Regulation 180 (5) of the PPR 2011 provides guidance that a decision of the review or appeals panel shall be binding on all parties concerned, including the authority.

### ***Recent or ongoing reform activities***

The PPA and PPR are being reviewed to strengthen public procurement systems including e-government procurement, creation of an independent appeals board, and introduction of open contracting data dissemination (this will bring in involvement of civil society and stakeholder in government contracting), among others.

## ***7. PI-25 Internal controls on non-salary expenditure***

This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23.

Indicator/Dimension	Score	Brief Explanation
PI-25 Internal controls on non-salary expenditure (M2)	B	The score is on account of low adherence to commitment controls and compliance.
25.1 Segregation of duties	A	Segregation of duties is well spelled out in the Accounting Manual and the Financial Regulations including separation of roles in the workflows for the IFMIS
25.2 Effectiveness of expenditure commitment controls	C	The commitment control system is partially effective as can be seen from the level of arrears for the last 3 years.
25.3 Compliance with payment rules and procedures	C	The Internal Audit and External Audit Reports reflect non-compliance with payment rules and procedures.

### ***Dimension 25.1 Segregation of duties***

Each of the following responsibilities is required by the rules to be segregated: (a) authorization: authorization entails approval outside the IFMIS for government institutions that are implementing IFMIS and is granted by the controlling officer or sub-warrant holder depending on the entity. Once approved the Accounts Assistant prepares a payment voucher, parks a payment in IFMIS then an Accountant verifies whether the Account Assistant has recorded the correct transaction or completes the payment in IFMIS. The Principle Accountant authorizes the expenditure or releases the payment in IFMIS. (b) Recording of the transaction process occurs within and outside the IFMIS and an audit trail on who did what and when exist in the system as there is access control and different levels of authorisation. The record outside the system consist of a paper trail on file indicating the approval by the controlling officer. (c) custody of assets: Cash – A Cashier at the level of Assistant Accountant is appointed to be a custodian of cash for an institution. With regards to tangible assets stock verification unit under controller of Internal Audit is responsible for the maintenance of records for physical assets through conducting routine stock verification and stock taking. Stores Regulation Manual guides this process- and (d) reconciliation or audit: reconciliation is under the jurisdiction of the head of Accounting Unit of each institution. Internal Auditors undertake reviews of internal controls including segregation of duties. The Audit Committee Handbook requires Audit committee members to have a good understanding of the MPSAs’ internal control framework including the Controlling Officer’s instructions and mechanisms to periodically assess compliance with the MPSAs’ financial management responsibilities. Audit Committees are required to evaluate the adequacy of the internal control systems including the control environment that provides for segregation of duties. In addition, the External Auditors do assess the effectiveness of the internal control system during the financial statement audit process and report deficiencies for correction. Such audits do show that deficiencies arise.

### ***Dimension 25.2 Effectiveness of expenditure commitment controls***

All transactions involving public funds shall be processed in accordance with provisions in the following statutes: (a) Public Finance Act No. 15 of 2004, (b) Financial Regulations 2006, (c) National Payment Systems Act 2007, and (d) Zambia PPA 2008, as well as any other relevant statute. All accounting staff are required to be registered members of the Zambia Institute of Chartered Accountants (ZICA) in accordance with the Accountants Act of 2008. All procurements are to be undertaken in accordance with the provisions of the PPA 2008 and the PPR 2011.

All central government entities are prevented from incurring unauthorized commitments through Financial Regulations, Public Finance Act, and Circulars on Treasury and Financial Management. Expenditure is usually incurred based on quarterly profile ceiling as given by the Treasury; however, when the actual releases fall short of the profile ceilings, expenses incurred are more than the actual releases but within the profile, this results into expenditure arrears.

### ***Dimension 25.3 Compliance with payment rules and procedures***

This indicator assesses the extent of compliance to payment rules and procedures.

For 2014 as found in the Public Accounts Committee (PAC) report (fifth session), compliance with rules and procedures appears to be deficient in a number of areas including procurement, stores, project supervision, revenue collection, provision of contracted services, payroll updating for terminated or deceased officers, record keeping,

incomplete financial statements, misapplication of funds, and so on. Unvouched expenditure was a substantial source of audit queries.

However, the Treasury noted that as a proportion of actual expenditure audit queries for 2014 amounted to 1.4 percent. The Auditor-General's audit methodology involved programs of test checks, inspections, and examination of accounting, stores, projects, and other records maintained by the public officers entrusted with handling public resources.

The Auditor-General's Report for 2013, 2014 and 2015 also found similar internal control issues. Weak internal controls were observed in MPSAs and included the following:

- Flouting of procurement procedures;
- Failure to account for stores procured;
- Failure to undertake activities that were paid for;
- Undelivered materials;
- Failure to collect revenue due to the government;
- Failure to terminate retired or deceased officers from the payroll;
- Poor custody of financial records;
- Non-processing of data in the IFMIS leading to incomplete financial statements; and
- Misapplication of funds.

*Table 3.19 shows an increasing overall trend for the issues contained in the report.*

**Table 3.19: Major Irregularities Noted in Auditor-General's Reports for 2013–2015 (K)**

	2015	2014	2013
Unaccounted for revenue	558,449	3,251,333	1,220,260
Unaccounted for funds	193,910	506,354	4,767,666
Misapplication of funds	28,153,997	73,637,561	65,158,686
Unretired accountable im- prest	12,659,892	12,585,194	8,170,462
Unvouched expenditure	349,306,160	389,905,333	67,139,852
Unaccounted for stores	13,460,323	26,400,272	72,371,091
Irregular payments	115,350,860	26,358,488	14,467,146
Non-recovery of advances and loans	2,352,451	2,877,442	2,744,814
Failure to follow procure- ment procedures	35,701,492	2,720,434	8,406,729
Undelivered materials	251,523,804	522,904	19,959,462
Non-submission of ex- penditure returns	6,308,762	1,232,749	1,792,192
Wasteful expenditure	39,854,959	8,354,290	354,939
Overpayments	26,559,013	1,578,571	360,684
Misappropriation of funds	—	4,767	44,500
<b>Total</b>	<b>881,984,072</b>	<b>549,935,692</b>	<b>266,958,483</b>
<b>Total actual Expenditure</b>	<b>56,846,700,141</b>	<b>41,542,162,667</b>	<b>31,208,821,248</b>
<b>Amounts arising from Irregularities as a % of Total Expenditure</b>	<b>1.6%</b>	<b>1.3%</b>	<b>0.8%</b>

**Source: Auditor General's Report and Audited Financial Reports for 2013, 2014 and 2015**

These defects could not have occurred without breach of internal controls for which particular officers are responsible. When a transaction is being processed, there is always someone who checks the transaction and a senior officer at the level of Director who approves the payment. This process is done before the Controlling Officer or sub-warrant holder authorizing the transaction. In some institutions, Internal Auditors pre-audit to ensure that this process is adhered to particularly for those institutions that are not yet on the IFMIS. As for institutions where the IFMIS is operational, Internal Auditors carry out regular post-audits. All the institutions with or without the IFMIS are then audited by External Auditors. Processes to surcharge delinquent behavior are envisaged for the new Finance Act.

The 2015 Audit Report also contains other issues such as outstanding arrears, failure to meet revenue targets on individual tax types, failure to recover domestic tax debt, and failure to collect ground rent.

Although the irregularities identified seem to have doubled during the reporting period, they still remain insignificant relative to the actual expenditure incurred indicating that there is compliance to payment rule and procedures in the majority of cases. However, reforms to strengthen internal controls are being undertaken to significantly reduce noncompliance to less than 1%.

**Recent or ongoing reform activities**

- The government has introduced the IFMIS that requires that all profiles are completed before expenditure is entered in the system. This controls expenditure as it stays within the budget limits and profiles submitted.
- The TSA has been introduced where all payments are being done centrally after approvals have been done and in line with procurements, plans, and approved budgets.
- The government is reviewing the Public Finance Act to take into account the new electronic accounting and payment systems as well as provide for sanctions for financial misconduct by public officers.

**8. PI-26 Internal audit**

This indicator assesses the standards and procedures applied in internal audit.

<b>Indicator/Dimension (M1)</b>	<b>Score</b>	<b>Brief Explanation</b>
PI-26 Internal audit (M1)	C+	The coverage of internal audit is less than desirable because of available resources. Audit committees are not yet fully actioned recommendations.
26.1 Coverage of internal audit	C	Internal audit is operational for central government entities representing the majority of budgeted expenditure and central government entities collecting most budgeted government revenue.
26.2 Nature of audits and standards applied	B	Though the internal audit function and audit activities meet professional standards, changing the audit approach from pre-audit to focus on review of internal controls " on high-risk areas, the quality assurance process has not yet been implemented. The internal audit manual was recently revised to include the Quality Assurance and Improvement Program (QAIP) and a number of officers have been trained in QAIP.
26.3 Implementation of internal audits and reporting	C	Despite the existence of an annual audit program, the internal audit function does not carry out most of programmed audits due to budgetary constraints. It was evidenced in most institutions that the actual number of programmed audits carried out was lower than the planned. The audit findings and recommendations are submitted to Audit Committees and Secretary to Treasury for follow-up.

26.4 Response to internal audits	C	Information obtained during the audits conducted in most institutions visited indicated that management only provides partial responses to previous audit recommendations.
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### **Dimension 26.1 Coverage of internal audit**

Government has in place the Internal Audit Department at the Ministry of Finance under which all Internal Auditors in the heads of Expenditure (Refer to Table 3.20) below falls. The Department of Internal Auditor seconds Internal Auditors to all the Heads of Expenditure indicated in Table 3.20 below and who staff the Internal Audit Sections that has been established in these line Ministries and covers all the heads of expenditures covering the entire approved budget for estimates of expenditure and non-tax revenues. However, the internal audit function has been somewhat limited at the district level. With regard to Tax Revenue, ZRA has an established Internal Audit Department that carries out the internal audit function on all tax types.

**Table 3.20: Heads of Expenditure for entities that comprise the approved Budgets**

	2013	2014	2015
Number of Heads of Expenditure	38	52	52
Total Approved Budget	41,288,435,891	50,518,351,845	61,147,417,793
Total Revenue including Grants & Proceeds from domestic and external borrowing	32,761,329,135	39,264,072,292	43,472,604,121

**Sources:** Audited Financial Reports for 2013, 2014 and 2015

### **Dimension 26.2 Nature of audits and standards applied**

The internal audit function has adopted the standards of the Institute of Internal Auditors (IIA) and applies them to all internal audit activities. An internal audit manual that is aligned to the IIA standards including coverage of internal control is in place.

The role of the Internal Audit has also changed from focusing on pre-audit to focus on review of Internal Controls and Risk Based Auditing in order to identify and address areas of weaknesses in the MPSAs.

The internal audit manual was recently revised to include quality assurance (QAIPs). A number of officers have been trained in QAIP processes; however, the process has not yet been implemented. The Controller of Internal Audit indicated that the implementation of QAIP is part of the strategic plan for the department over the MTEF 2017–2019.

Further, the Internal Audit Department also has a mandate to undertake a number of specialized audits (IT, Performance, Forensic and Risk Based Audits) in all MPSAs which it undertakes from time to time and upon request from MPSAs or upon directives from the Secretary to the Treasury.

### **Dimension 26.3 Implementation of internal audits and reporting**

Annual Audit Programs are prepared and applied for all internal units in the major MPSAs, and reported to management. The programs are initially prepared at the unit level followed by harmonization at higher levels and ultimate consolidation of the programs into one program for the entire internal audit function in the central government. The audit programs are carried out in the majority of cases and the only constraint which affects the program is inadequate funding. The reports generated from these audits are submitted to the Audit Committees and the Secretary to the Treasury for action. In addition, these reports are also shared with the Auditor General which makes follow-up when undertaking the annual audit on the Financial Statements of MPSAs to check whether the recommendations made were implemented.

## Dimension 26.4 Response to internal audits

Management does provide responses to the majority of the internal audit findings. Internal audit conducts follow-up audits to check progress and validate responses. Although a record exist of audit findings and recommendations, these are not summarized to provide information on those issues that have been resolved and those still outstanding.

### Recent or ongoing reform activities

- As regards establishment, there is a proposed structure that will ensure the district level is covered by internal audit activity.
- Training of Internal Auditors is ongoing in quality assurance and improvement programs to enhance the quality of internal audit function.
- The Internal Audit Department in Zambia in conjunction with the Zambia IIA is developing a local curriculum for diploma and degree programs aimed at building capacity of Internal Auditors.

## O. Pillar VI. Accounting and reporting

### 1. PI-27 Financial data integrity

This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data.

Indicator/Dimension (M2)	Score	Brief Explanation
PI-27 Financial data integrity (M2)	C	Reconciliations are not timely.
27.1 Bank account reconciliation	D	Most Central Government bank accounts (holding accounts and others bank accounts) are usually not reconciled monthly by MPSAs, but do so quarterly and at year end reconciliations. However, from the sample of the 10 MPSAs evaluated on this matter, 9 of them were behind schedule for a period ranging 3 to 6 months in submitting bank reconciliation statements to the Treasury for the year January to December, 2016.
27.2 Suspense accounts	C	Majority of suspense accounts were not reconciled monthly but left up to quarter and close of the year reconciliations when annual financial statements are being prepared. This was the case in more than 75% of the MPSAs. Suspense accounts mainly takes care of misposted and miscoded transactions when making payments
27.3 Advance accounts	C	Majority of clearing accounts are not reconciled monthly as required by accounting standards. The majority of MPSAs leave these unreconciled until 2 to 4 months after end of the financial year.
27.4 Financial data integrity processes	B	All users of the system are restricted to their area of authorization and there is an audit trail. However, there is no specific unit that routinely verifies financial data integrity.

## Dimension 27.1 Bank account reconciliation

Most Central Government bank accounts (holding accounts and others bank accounts) are usually not reconciled monthly by MPSAs, but do so quarterly and at year end reconciliations.

However, from the sample of the 10 MPSAs evaluated on this matter, 90% of them were behind schedule for a period ranging 3 to 6 months in submitting bank reconciliation statements to the Treasury for the year January to December, 2016. No bank reconciliation statements were made available for assessment relating to 2015, 2014 and 2013 respectively (See Annex 6.4).

The Public Finance Act of 2004 and Financial Regulations No. 137 and 138 provide for maintenance and reconciliation of bank accounts by MPSAs. Also Finance Circular No. 1 of 2016 to all controlling officers requires monthly submission of reconciliation statements by all MPSAs to the Treasury by 15th day of the following month on all accounts funded by the government.

Reconciliation statements for 2015 and 2016 indicated poor performance on reconciliation of accounts by MPSAs. Only the MoF and the seven MPSAs that recently adopted the TSA are having their accounts reconciled regularly by the MoF Cash Management Unit. These additional six MPSAs are the MNDP, Ministry of Commerce; OAG; Ministry of Youth, Sports, and Child Development; Ministry of Health; Ministry of Agriculture; and Ministry of General Education (formerly part of Ministry of Education). The implementation of the TSA started in 2014 with piloting of the MoF; however, progress has been slow. The TSA involves linking the IFMIS to the BoZ through the Real-Time Gross Settlement System (RTGS), which then enables the electronic disbursements of funds to MPSAs and payment of government obligations to suppliers of works, good, and services in a timely and efficient manner.

### ***Dimension 27.2 Suspense accounts***

Majority of suspense accounts were not reconciled monthly but left up to quarter and close of the year reconciliations when annual financial statements are being prepared. This was the case in more than 75% of the MPSAs. Suspense accounts mainly takes care of miss posted and miss coded transactions when making payments.

Suspense accounts are expenditure or revenue that cannot for the time being be charged against an expenditure or revenue item. They include imprest (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. Suspense accounts were not being cleared on time. These are mainly in respect of receivables (staff debtors accounts for all types of imprest) and are usually reconciled quarterly and within 2 months after the year end.

### ***Dimension 27.3 Advance accounts***

Reconciliation of the advance accounts are done annually but with delays. Majority of clearing accounts are not reconciled monthly as required by accounting standards. The majority of MPSAs leave these unreconciled until 2 months after end of the financial year.

### ***Dimension 27.4 Financial data integrity processes***

The controls on financial transactions have been enhanced in that segregation of duties in the system is now very well defined after the rollout of the IFMIS to most MPSAs. All users of the system log on using personal passwords and are initialized in the system by way of filling in a user maintenance form, which is duly authorized by responsible officers in charge of the ministry or department. All processes of payments done in the system can be traced to all the officers who play a role in the processes, thereby enhancing the audit trail. However, there is no specific unit that routinely verifies financial data integrity.

### ***Recent or ongoing reform activities***

The TSA and IFMIS have been introduced and are being rolled out.

## ***2. PI-28 In-year budget reports***

This indicator assesses the comprehensiveness, accuracy, and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures.



Indicator/Dimension	Score	Brief Explanation
PI-28 In-year budget reports (M1)	D+	The main reason causing delays in producing these reports because of residual manual processes still in use by some MPSAs.
28.1 Coverage and comparability of reports	C	These cover budget, supplementary releases, and reported expenditure, expressed as a percentage of funding quarterly.
28.2 Timing of in-year budget reports	D	Budget execution reports are prepared quarterly but mainly issued more than 8 weeks from the end of the quarter. On average they are issued between 2–4 months after the end of the quarter.
28.3 Accuracy of in-year budget reports	C	Mainly not conclusively reconciled at the time of posting the data on the ministerial website

### ***Dimension 28.1 Coverage and comparability of reports***

These reports cover the total amount appropriated by each head of expenditure plus supplementary figures giving a total authorized provision. Total releases at the end of quarter and expenditure figures reported against funding are expressed as a percentage. The reports for 2015 were delayed as follows: The March 2015 report was posted on June 4, 2015. The report for June 2015 was posted on August 18, 2015. The September 2015 report was posted on December 8, 2015, and the report for December 2015 was posted on May 17, 2016. Going by this trend, all the reports were delayed for at least 2 to 4 months.

### ***Dimension 28.2 Timing of in-year budget reports***

The budget execution reports are to be uploaded on the ministerial website [www.mof.gov.zm](http://www.mof.gov.zm) within 45 days after the end of each quarter. However, these reports were delayed. June 2013 report was posted in August 2013. The March 2014 report was posted in June 2015. The December 2014 report was posted in June 2015. The report for March 2016 was posted on May 17, 2016. The report for June 2016 was posted on September 6, 2016.

### ***Dimension 28.3 Accuracy of in-year budget reports***

The budget execution reports provide information on the budget performance comparing budget provision, funding released, and expenditure reported against the funding expressed as a percentage. These figures are normally not conclusively reconciled at the time of posting the data on the website due to delays by various MPSAs in winding up with reconciliations.

## ***3. PI-29 Annual financial reports***

This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system.

Indicator/Dimension	Score	Brief Explanation
PI-29 Annual financial reports (M1)	B+	Performance has been strong on average for all the dimensions under this indicator except that for each of the 3 years around 50 percent of the reports received audit qualifications from the Auditor-General.
29.1 Completeness of annual financial reports	A	The reports are prepared annually and take the format of the budget outturn, comparing expenditure against original budget indicating budget variances.

Financial Reports for Budgetary Central Government are comparable with the Approved Budget. Ministry of Finance website has reports by Accountant General's office that includes required financial details. These are the summary and detailed annual financial reports containing information on revenues, financial obligations and expenditures. The Budget Office does make cash flow projections in order to timely settle local and international commitments.		
29.2 Submission of reports for external audit	B	The submission of statements to the Auditor-General for audit in the review period was made within 6 months after the end of the fiscal year. For instance, the statements for 2015 financial report were submitted to the Auditor-General between March and May 2016. This is against the constitution provision of the March 31 deadline.
29.3 Accounting standards	B	The reports are prepared in accordance with Generally Accepted Accounting Practices (GAAP). This is explained in the statement by the Accountant-General for each financial year.

### ***Dimension 29.1 Completeness of annual financial reports***

Financial Reports for Budgetary Central Government are comparable with the Approved Budget. Ministry of Finance website provides the reports by the Accountant General's office. These are the summary and detailed annual financial reports covering information on revenues, financial obligations and expenditures.

Consolidated year-end financial statements are critical for transparency in the PFM system. To be complete they are based on details of all MPSAs. In addition, the ability to prepare year-end financial statements on time is a key indicator of how well the accounting system is operating and the quality of records maintained. This dimension relates both to the content of the accounts and to the quality of the financial records that support them.

Following the adoption of 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 were revised to contain the following statements:

- Statements by the Minister, ST, and Accountant-General
- Statement of cash receipts and payments - Statement A
- Statement of budget execution - Statement B
- Statement of detailed budget execution by MPSAs - Statement C
- Statement of comparison of budgeted and actual revenues and expenditures (on a functional [COFOG] basis) - Statement D
- Statement of public debt - Statement E
- Notes to the financial statements

A number of annexes provide further details to the statements.

The consolidated annual financial statements are contained in two volumes. The first volume, 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' Statement C. This provides details of the MPSAs' actual budget execution by program/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.

### **Dimension 29.2 Submission of reports for external audit**

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). For each of the years 2013, 2014, 2015, the statements were submitted for external audit in August.

In line with the Financial Regulations (198(1)), MPSAs submit their financial statements to the MoF (Accountant General's Office) by the end of March for review and consolidation, followed by submission one by one to the OAG within 6 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 the MoF. The statements in most cases are delayed in being submitted for audit. For instance, 2015 statements were submitted over 3 months beyond the constitutional provision. However, this has generally been an improvement compared to the previous years.

### **Dimension 29.3 Accounting standards**

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 GRZ 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. The financial reports are prepared in accordance with the law of the land and generally accepted international standards. An issue is the number of MPSAs with financial reports that are given qualified audit opinions. The Financial Report for 2014 Appendix 14 (page 95) showed that 26 of the 52 MPSA financial statements received qualified audit opinions and 19 of the 26 had been qualified for 3 consecutive years.

### **Recent or ongoing reform activities**

Government is in the process of developing a roadmap for possible migration to accrual basis of accounting using IPSAS.

## **Pillar VII. External scrutiny and audit**

### **4. PI-30 External audit**

This indicator examines the characteristics of external audit.

<b>Indicator/Dimension (M1)</b>	<b>Score</b>	<b>Brief Explanation</b>
PI-30 External audit (M1)	D+	There has been a strong performance in audit coverage and standards, while in submission of audit reports to the legislature, follow-up and Supreme Audit Institution (SAI) independence performance has been slightly weak.
30.1 Audit coverage and standards	A	Audits are undertaken in line with the ISSAIs as per the African Organization of Supreme Audit Institutions - English Speaking (AFROSAI-E) Audit Manuals.
30.2 Submission of audit reports to the legislature	B	Audit reports are submitted within 6 months of receipt of financial statements from MoF.

30.3 External audit follow-up	C	There is a formal, comprehensive, and timely response made by the executive or audited entity. Although there is a formal follow-up process of writing responses on action taken, the action is not very effective as some things remain unresolved.
30.4 Supreme Audit Institution independence	D	Revised legislation has formalized the arrangements for involving the legislature in the appointment of the Auditor-General and guaranteeing independence for operations. Budget approval remains as per normal arrangements of the government. However, the absence of mandatory requirement for appointment of Auditor General in substantive position led to possibility of the key constitutional office continued on acting arrangement for extended periods.

### **Dimension 30.1 Audit coverage and standards**

The OAG uses the ISSAIs and has adopted the most recent audit manuals developed by the AFROSAI-E for the conduct of its audits and the preparation of its reports. Audit reports are placed on the OAG website. The audit scope and coverage is based on an overall risk assessment done during the planning meeting before commencement of audit assignments. This involves the use of a spreadsheet where audit entities are ranked based on a risk rating and weights attached based on expected significance of audit risk. Other factors considered include size of the budget, risk incidence in previous years, the stakeholder's interest in the client, and risk of fraud, among others. All Financial reports including revenue, expenditure, assets and liabilities of all MPSAs are audited in line with ISSAIs as per AFROSAI-E Audit Manuals. The OAG issues appropriate opinions on all audited entities in line with findings of each audit carried on each entity. The audit reports highlight relevant material issues and systematic and control risks. In addition to the main financial audits undertaken, the OAG also undertook compliance audits and value for money audits. An average of 4 to 6 value for money audit reports were issued; there are plans to increase the numbers of such reports to be issued annually.

### **Dimension 30.2 Submission of audit reports to the legislature**

During the period 2013 to 2015, the OAG had received financial statements for all MPSAs and audited them by the end of August each year. The Ministry of Finance submitted the Financial Report to Parliament by end of September. OAG reports on main Government accounts (for financial years 2012, 2013 and 2014) were submitted to the Legislature by 31st December. This translated into submission of audit reports to the Legislature three (3) months after MoF submitted the financial reports. This was in line with Constitutional provisions which required submission of annual audit reports not later than twelve (12) months after the end of each financial year.

An audit report on the CG's financial statements is sent to Parliament each year covering the accounts for the previous fiscal year that have been prepared by the MoF. The report is issued within 6 months and covers the following matters:

- Statement A: Consolidated cash receipts and payments and cash positions
- Statement B: Summarizes budget execution for revenue and expenditure
- Statement C: Actual expenditures of each MPSA against total authorized provision, along with the opinion of the OAG on the extent to which the figures represent a fair presentation
- Statement D: Budgeted and actual revenue and expenditure on the COFOG basis
- Statement E: Public debt

**Table 3.21: Dates for Submission of Audit Report to the Legislature**

Year	Date Annual Financial Statement Received by SAI	Date Submitted to Legislature
2015	August 2016	September 30, 2016
2014	August 2015	December 10, 2015
2013	August 2014	December 31, 2014

During 2013–2015, the OAG had received financial statements for all MPSAs and audited them by the end of August each year. The MoF submitted the annual financial report to the National Assembly by end of September. The OAG reports on the main government accounts were submitted to the President who caused them to be tabled before the legislature by December 31. This translated into submission of audit reports to the legislature 3 months after the MoF submitted the financial reports. This was in line with constitutional provisions that required submission of annual audit reports not later than 12 months after the end of each financial year. The overall time difference between receipt of financial statements in July/August and reporting to the legislature the findings of the audit is 5–6 months.

OAG reports on parastatal bodies were submitted to Parliament within 1–2 months of submitting the main reports. This led to submission of OAG reports to Parliament 5 months after the submission of the financial reports by the MoF.

### ***Dimension 30.3 External audit follow-up***

There is a formal, comprehensive and timely response made by the executive or audited entity. The other direct follow-up, apart from the next annual audit of the financial accounts, is done by the PAC on the issues in Auditor-General's reports. During PAC deliberations, each MPSA submits a memorandum explaining action taken on issues raised in the reports of the Auditor-General. Although there is a formal follow-up process of writing responses on action taken, the action is not very effective as some things remain unresolved. The action taken is not reported in good time, making it difficult to undertake verification of the reported response in time before publication of the Treasury Minutes (the Action Taken Report).

The MoF also issues a separate Report on Outstanding Issues covering issues from previous periods not yet resolved. The OAG reports include an appendix on issues not fully resolved from the previous financial years. The follow-up mechanism is robust and only needs commitment of implementing institutions to make it effective.

### ***Dimension 30.4 Supreme Audit Institution independence***

The independence of the SAI in terms of operations has always been ensured in that the Auditor-General has access to records and is not subject to the control or direction of any authority. The OAG has access to all information needed during the audit. However, some minor delays may affect completion of audit work, particularly the provision of reports from the IFMIS that may not be ready due to delays in capturing data from sites that are not online.

The OAG has been operating under Article 121 of the Constitution and the Public Audit Act (1980) that lagged behind international standards in terms of autonomy of appointment of the Auditor-General. The new legal framework has made improvements in terms of ensuring autonomy of operations from the appointing authority. The Amended Constitution (2016) enshrines autonomy of the appointment process for the Auditor-General. Article 234 requires that the SAC makes recommendations to the President on the appointment of the Auditor-General. Article 249 requires appointment of the Auditor-General by the President to be ratified by the National Assembly. The tenure of the Auditor-General is secured through the constitution to the age of sixty. Removal of the Auditor-General before this age requires recommendation of a tribunal that should have investigated the alleged misconduct or incompetence.

The two articles are meant to ensure independence for the Auditor-General when it comes to planning audit work while securing tenure of the Auditor-General. However, at the time of the assessment, the SAC was not yet operational and therefore the assessment team is not in a position comment on the impact of the SAC on independence of OAG. The roles of the SAC should not impede the operations of the OAG as they are expected to be restricted to supporting administrative processes and not the performance of the Auditor-General's roles. However, the fact that a new institution (SAC) is being made operational for the first time, necessitates careful fine tuning of practices so that it does not impair the independence of the OAG, but to enhance it. The absence of mandatory requirement for appointment of Auditor General in substantive position led to possibility of the key constitutional office continued on acting arrangement for extended periods. Since the retirement of Auditor General in December 2015, no substantive appointment has been made to the position.

The enactment of a new law for the Commission of Audit provides for oversight of the Auditor-General's appointment and activities. The commission members, comprising representatives of the accounting, economics, legal, human resources management, and engineering institutions, are yet to be appointed. Its functions affect the independence of the Auditor-General in ways that are inconsistent with the international guidance laid down in ISSAI 10, and their exercise could in the future affect the scrutiny that the audit function applies to budget outcomes.

In terms of the budgeting process, the OAG's budget is approved by Parliament within the ceiling given by the MoF. More than 90 percent of the approved budget is released during the year. However, delays exist sometimes when releasing approved budgets, thereby affecting implementation of budgets and programs.

### **Recent or ongoing reform activities**

- The Public Audit Act was reviewed, which led to the widening of the audit scope.
- The SAC has been created and once operational is expected to enhance financial and administrative autonomy of the OAG.

## **5. PI-31 Legislative scrutiny of audit reports**

This indicator focuses on legislative scrutiny of the audited financial reports of the national government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf.

<b>Indicator/Dimension</b>	<b>Score</b>	<b>Brief Explanation</b>
PI-31 Legislative scrutiny of audit reports (M2)	B+	Timeliness and difficulties in ensuring corrective action can be issues.
31.1 Timing of audit report scrutiny	C	Scrutiny of audit reports on annual financial reports has been completed by the legislature within 8 months from receipt of the reports.
31.2 Hearings on audit findings	A	PAC holds in-depth hearings on key findings of audit reports regularly with responsible officers from all audited entities that received a qualified or adverse audit opinion. Every year the PAC together with OAG and the MoF meet to come up with a program to consider all reports issued by the OAG.
31.3 Recommendations on audit by the legislature	B	The legislature issues recommendations on actions to be implemented by the executive and follows up on their implementation. Although there are mechanisms for following the action being undertaken, the legislature relies on the Treasury to report progress being made. The executive reports progress made although in some cases no action is undertaken.
31.4 Transparency of legislative scrutiny of audit reports	A	All hearings are conducted in public except for strictly limited circumstances such as discussions related to national security or sensitive discussions. Committee reports are debated in the full chamber of the legislature and published on an official website or by any other means easily accessible to the public. PAC hearings are also broadcast on Parliament radio and national and private TV and through stories carried in the print media.

### ***Dimension 31.1 Timing of audit report scrutiny***

The MoF submits reports by September each year while the legislature completes its scrutiny between April and July the following year. The PAC report on 2014 OAG was ready in April 2016 while the reports for 2013 and 2012 were ready in July 2015 and June 2014, respectively. This meant that the legislature was only able to complete its scrutiny 7–9 months after the financial reports were tabled in Parliament. Parliament sometimes is closed at the time of submission of audit reports and when they open, there are other matters to consider such as new legislation. In addition, there may be delays in compiling findings from different sessions before the final report is presented and adopted in the main House.

### ***Dimension 31.2 Hearings on audit findings***

The PAC conducts detailed hearings on all cases with an adverse audit opinion and summons witnesses, including Controlling Officers, to appear and explain the findings. Controlling Officers of MPSAs appearing in the reports are requested to make written submissions that are then deliberated on during the PAC sessions. Both the OAG and the MoF are permanent witnesses to the PAC whose duty includes explaining the matters under consideration. The OAG may provide additional, suggested questions to aid the discussions on findings.

### ***Dimension 31.3 Recommendations on audit by the legislature***

The legislature issues recommendations on actions to be implemented by the executive and follows up on their implementation. Although there are mechanisms for following the action being undertaken, the legislature relies on the Treasury to report progress being made. The executive does report progress made, although in some cases no action is undertaken.

### ***Dimension 31.4 Transparency of legislative scrutiny of audit reports***

PAC hearings are open to the public but attendance of the public, nongovernmental organizations (NGOs), and CSOs tends to be low. PAC meetings are also broadcast live on parliamentary radio and TV. Reports are referred to the main House for debate and adoption. The Auditor General's Report is published on the Auditor General Website, Ministry of Finance Website and hard copies can be obtained from the Auditor General's Office, National Assembly and Government Printers.

### ***Recent or ongoing reform activities***

Parliament is in the process of further reforming through the Parliamentary Budget Office and improvements in the system of Public Accounts Committee.

This chapter provides an integrated analysis on the basis of the information presented in the preceding Chapters 2 and 3 and presents overall conclusions on the performance of PFM systems. In particular, the analysis assesses how the performance of PFM systems may affect the government's ability to deliver intended fiscal and budgetary outcomes. The most important systemic weaknesses are identified in that respect.

#### 4.1 Integrated assessment of PFM performance

This section presents the implications of the assessment for the seven pillars of PFM performance: budget reliability, transparency of public finances, management of assets and liabilities, policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, and external scrutiny and audit.

##### 1. Pillar I: Budget reliability

The extent to which the government budget is realistic and implemented as passed by the legislature is measured by comparing actual revenue and expenditure with the original budget. The assessment, covering 2013, 2014, and 2015, did not fully support this ambition. The aggregate revenue estimates were within 5 percent of outturn, but revenue composition variances were 13.8 percent, 20.2 percent, and 19.6 percent for 2013, 2014, and 2015, respectively, with VAT receipts consistently underestimated by more than 20 percent.

The PIs showed that expenditure outturn at the aggregate level was just within 15 percent of the budget for 2015 and within 10 percent for 2013 and 2014 but at the economic head had variances of more than 20 percent for each of the 3 years. For one of the economic heads (subsidies), the expenditure was 4.3, 2.4, and 2.7 times the budgeted amount for 2013, 2014, and 2015, respectively, but other heads also had some high variances as shown in Table 4.1.

**Table 4.1: Expenditure Composition Outturn Variances by Economic Type**

Economic Head	% Deviation		
	2013	2014	2015
Compensation of employees	-7.33	-13.70	-18.10
Use of goods and services	-21.90	-26.29	-33.78
Consumption of fixed capital	-29.24	-53.31	2.89
Interest	-22.60	6.75	36.69
Subsidies	431.26	237.23	273.02
Grants	-15.33	-23.42	-13.33
Social benefits	-20.16	-39.33	-32.61
Other expenses	86.62	21.93	49.60



The aggregate results show a reasonably good performance in achieving the fiscal outcome, but in respect of allocating resources and delivering services the substantial variances in economic type, which are also present in the results for administrative heads, the budget is not reliable. The administrative head variances were consistently lowest for the Ministry of Health and MoE. The highest consistent percentage over-expenditures were for the MoF and Cabinet Office, and the highest consistent percentage under-expenditures were for the Ministry of Lands, Ministry of Community, and MLGH. This unevenness directly, and substantially, alters the approved resource allocation and has significant effects on the achievement of service delivery objectives.

There are also some consequential fiscal discipline issues regarding expenditure control as MPSAs override commitment and cash controls and incur excess expenditures through supplier credit to carry out their functions. This has resulted in expenditure arrears that are proving difficult to eradicate.

## **2. Pillar II: Transparency of public finances**

This pillar covers the way in which the PFM system provides the information that MPSAs, the legislature, and the public need for the budget to be executed to achieve the desired outcomes. The GRZ has increased its engagement with the public through the citizens' budget and transparency in delivery is important. This is achieved through meaningful budget documentation and classifications and publication of all government revenue and expenditure progress including for intergovernmental transfers and service delivery performance. Transparency helps budget outcomes to be achieved within the government fiscal policy framework under adequate budget management and reporting arrangements.

The indicator covering budget documentation was rated B because it did not include information on the previous budget outturn, debt, financial assets, fiscal risks, and tax expenditures, all details that could usefully assist observers of the government's financial position and policies to comment on budget intentions and outcomes. The budget uses the international COFOG framework but not yet at its third level, the sub function level, so was rated B rather than A. An example to illustrate the value (for example, to civil society interested in health provision) of publishing the information contained in the sub function level is as follows:

Level 1 (describes government objective)	07 Health
Level 2 (describes function)	07.3 Hospital services
Level 3 (sub function)	07.33 Medical and maternity center services

The indicator for public access to fiscal information was rated D with all the recommended documents not being available. Transfers to the local government were rated B+, as they were transparent, rules based, and notified in time for budget preparation.

Overall, performance for transparency is strong with relatively inexpensive opportunities available to more extensively inform stakeholders on public expenditure and revenue issues.

## **3. Pillar III: Management of assets and liabilities**

The PEFA performance structure added this pillar in 2016 to focus on the importance of prudent planning and management of public investments, assets, and liabilities and monitor the associated risks. The assessment found that none of the indicators rated very well:

- Fiscal risk reporting (rated D+). Most public corporations submit annual reports late or they are not supplied; there is little auditing of councils and no consolidated reporting of contingent liabilities. All contribute unquantified risks to the future fiscal position. An example has been the growth of the unfunded superannuation liabilities of the local government.
- Public investment management (rated D). There is inadequate or nonexistent economic analysis or costings of projects to justify selection and enable monitoring.
- Public asset management (rated D+). Records of holdings and values of financial assets need updating, and there is insufficient information on the stock and usage of fixed assets and landholdings.

- Debt management (rated C). The debt management strategy has expired and a procedures manual is in draft form.

Overall the assessment under this pillar has shown substantial potential for investment decisions to lead to public expenditure on wasteful, ineffective, or non-optimal activities that can establish long-term government commitments on maintenance and rectification, with subsequent fiscal pressures. Planning and monitoring arrangements need major overhaul with much stronger governance requirements on managers of public assets such as public corporation boards and local, municipal, and provincial councils.

#### **4. Pillar IV: Policy-based fiscal strategy and budgeting**

According to the PEFA Framework, this pillar is about whether the fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections. The assessment found that the indicators were rated well:

- Macroeconomic and fiscal forecasting (rated B). These are in place. The legislature has responsibility for approving fiscal strategies and plans and the usefulness to legislators of the forecasts could be improved by adding independent review to the forecasts and including in the budget documents explanations of variations that have been made from previous forecasts. Currently sensitivity analysis is carried out but not shared with the legislature or the public, thereby limiting the capacity of stakeholders to assess risks to the fiscal intentions of the budget.
- Fiscal strategy (rated A). This is provided in the budget documentation with appropriate explanations.
- Medium-term perspective in expenditure budgeting (rated B). An MTEF process is in place with some need to improve budget links with strategic plans.
- Budget preparation process (rated B+). A comprehensive process that could be improved by providing ceilings to MPSAs earlier and ensuring realistic budget planning that provides for essential spending in an environment where the discretionary element of the budget has become very compressed. The impact on budget setting of the restricted fiscal space needs to be clearly communicated to MPSAs before they establish their budgets.
- Legislative scrutiny of budgets (rated B+). It is strong in annual budget consideration but should give more attention to medium-term issues and in-year control of budget variations.

Overall this pillar performance provides a strong basis for a well-defined budget intent. The legislative role then needs to continue through the year so that the approved budget is executed to provide the intended outcomes. As shown in the Pillar I, performance fiscal discipline at the component level is poor, and resource allocation and service delivery outcomes are changed from the approved budget.

#### **5. Pillar V: Predictability and control in budget execution**

Downstream budget implementation through well-supported execution processes requires a system of effective standards and internal controls ensuring that resources are obtained and used as intended. This area of the PEFA Framework is the most critical to attaining the goals of desirable budget outcomes, but the assessment showed there is an opportunity to improve in important areas:

- Revenue administration (rated C+). Arrears are high and some uncollectable. More use of electronic payments could improve collections.
- Accounting for revenues was rated B+.
- Predictability of in-year resource allocation (rated C+). Consolidation of cash balances is slowly being achieved through the TSA but rollout needs to accelerate. Funding profiles are provided monthly rather than the more desirable quarterly criterion. This is an effect of the highly constrained discretionary spending space so that the pressure on the budget requires a tight fiscal management that also retains flexibility to meet emerging changes to expenditure service delivery needs.
- Expenditure arrears (rated D+). Arrears arise through MPSAs exceeding their funding profiles in the absence of strict commitment controls, and the monitoring process is inadequate until the IFMIS is more intensively applied to expenditure management.
- Payroll controls (rated C+). Annual payroll audits are not carried out.
- Procurement management (rated C+). Monitoring procurement is hampered by lack of a central database of procurement records. A database will also enable improved monitoring of the use of competitive methods.
- Internal controls on non-salary expenditure (rated B). Expenditure commitment and other internal controls were weak according to the Auditor-General's 2015 report that included a summary table of major irregularities

amounting to K 881 million (1.8 percent of annual expenditure). The most dominant of the 14 types of irregularity involved unvouched expenditure (K 349 million), undelivered materials (K 251 million), and irregular payments (K 115 million).

- Internal audit (rated C+). Adoption of the Audit Manual improved compliance with standards, but resources were insufficient to undertake the full program of planned audits.

The assessment of this pillar indicates that the constrained fiscal space places pressure on desirable practices for giving MPSAs the reliable quarterly spending profiles that they need to adequately manage their programs. Service delivery is likely to be affected by this uncertainty as well as supplier management. Various budgetary and management controls are not applied to a sufficient degree to ensure the use of competitive effective procurements, the prevention of excess expenditures, and the consolidation of cash balances. Budget execution processes are not performing well enough in the constrained fiscal space to tightly maintain the approved resource allocations.

## **6. Pillar VI: Accounting and reporting**

Timely, relevant, and reliable financial information is required to support fiscal and budget management and decision-making processes. The assessment is generally with evidence that the residual manual processes are limiting performance and that insufficient attention is being given to financial reporting. Financial data integrity was rated C with good internal control over access to the accounting records supported by audit trails. The IFMIS controls embedded in the proprietary software need to be fully applied to protect the PFM procedures from systemic or opportunistic misuse. Internal and external audit access to scrutinize the system provides the risk management cover for the system of controls, and their reports need to be more systematic. This is addressed in Pillar VII. Reconciliations of bank, suspense, and advance accounts were generally not sufficiently timely, leaving the system open to misuse and clearance of differences more difficult. Full use of the TSA is needed.

Reporting in-year, rated D+, had timeliness problems that should be remedied with replacement of manual accounting processes and interfaces. In-year budget reports are insufficiently detailed, timely, and user-friendly to support effective management of budget execution. This limitation contributes to the erosion of the approved budget outcomes because managers are not sufficiently informed of the current position. For 2014, the most recent available reporting year, 26 of the 52 MPSA financial statements received qualified audit opinions and 19 of the 26 had been qualified for 3 consecutive years.

Overall, the accounting and reporting processes have a solid foundation of controls and platforms that need to be fully implemented to bring performance up to levels that support budget execution processes that can control the expenditures in line with the approved budget.

## **7. Pillar VII: External scrutiny and audit**

This pillar examines the scrutiny of the government's PFM performance provided by the Auditor-General's reports and the legislature's review. The assessment for both external audit and legislative scrutiny of audit reports was rated D+ and B+ respectively. The enactment of a new law for the Commission of Audit provides for oversight of the Auditor-General's appointment and activities. The commission members, comprising representatives of the accounting, economics, legal, human resources management, and engineering institutions, are yet to be appointed. Its functions affect the independence of the Auditor-General in ways that are inconsistent with the international guidance laid down in ISSAI 10, and their exercise could in the future affect the scrutiny that the audit function applies to budget outcomes. The commission is appointed by the President and reports to the President and there does not appear to be the necessary oversight by the legislature. The Public Audit Act 2016 complements the State Audit Commission Act 2016.

### **Q. 4.2 Effectiveness of the internal control framework**

An effective internal control system plays a vital role in addressing risks and providing reasonable assurance that operations meet the four control objectives: (a) operations are executed in an orderly, ethical, economical,

efficient, and effective manner; (b) accountability obligations are fulfilled; (c) applicable laws and regulations are complied with; and (d) resources are safeguarded against loss, misuse, and damage. This analysis assesses the extent to which the internal control system operating in the PFM system contributes to the achievement of those four control objectives, based on available information obtained during the PEFA assessment. Detailed findings concerning the main elements of the five internal control components are summarized in Annex 2 that also highlights the current perceived gaps in the internal control system.

International standards (ISSAI GOV 9100, Guidelines for Internal Control for the Public Sector, issued by the International Organization of Supreme Audit Institutions) provide useful frameworks for control components:

- Control environment
- Risk assessment
- Control activities
- Information and communication
- Monitoring of the internal controls system

A companion standard (ISSAI GOV 9120, Internal Control: Providing a Foundation for Accountability in Government) provides guidance as to the separate roles of managers and auditors in implementing control effectively.

**Control environment.** It is set by the financial management laws and regulations. The Public Finance Act establishes Audit Committees to operate for each ministry, department, and statutory corporation with functions that include evaluation of internal controls. The Audit Committee Handbook issued by the Cabinet Office requires committees to “provide structured systematic oversight of the MPSA’s governance, risk management, and internal control practices.” The handbook lays down the control components as per ISSAI GOV 9100 and sets out the separate practices to be followed by management, internal audit, and the Audit Committee to manage risk and internal control and to engage with the work of the Auditor-General.

The PFM laws and regulations include the Treasury and Financial Management Circular No. 1 of 2016 to all Controlling Officers that states “prudent management of financial resources is key to delivering better public services.” The circular lays out the legal framework for this intention and key elements are listed in the following box.

#### ***Box 4.1: Key elements of Legal framework for delivering better public services***

***Article 118 (1) of the Constitution requires the Minister of Finance to Prepare and present Annual Audited Financial Statements for the Republic of Zambia to the National Assembly within Nine (9) months after the end of each financial year.***

***All transactions involving Public Funds shall be Processed in accordance with provisions in the following Statutes: (i) Public Finance Act, No. 15 of 2004; (ii) Financial Regulations, 2006; (iii) National Payment Systems Act, 2007; and (iv) Zambia Public Procurement Act, 2008; and any other relevant Statute.***

***All Accounting staff are required to be registered members of the Zambia Institute of Chartered Accountants (ZICA) in accordance with the Accountants Act, 2008.***

***All procurements are to be undertaken in accordance with the provisions of the Public Procurement Act (PPA), 2008; and the Public Procurement Regulations of 2011.***

***Contraction of Loans, Guarantees, Indemnities and agreement/contracts should be done in accordance with the Loans and Guarantees (Authorization) Act, CAP 366.***

**Risk assessment.** Fiscal risk management is covered widely in the PEFA assessment but also by specific indicator PI-10 fiscal risk reporting. This PI did not rate well with poor reporting practices by public corporations and subnational governments leading to high fiscal risks. These risk management processes are deficient. Risk management processes are also used to provide efficient methods for internal control effectiveness. As assessed by dimension 19.2, the ZRA operates risk management processes for its revenue processes using a formal Risk Management Policy, and for dimension 19.3 tax audits and investigations have a risk basis. Internal audit use of risk assessment covered by dimension 26.2 showed that its audit manual of procedures was risk based. Dimension 30.1 (audit coverage and standards) also showed that external audit planning was risk based.

**Control activities.** The PEFA assessment includes specific indicator dimensions on the expenditure side for internal controls over payroll (PI-23), non-salary expenditure (PI-25), and procurement (PI-24). A major requirement for management and staff effectiveness in applying internal controls is the presence of a government-wide user-friendly, integrated, and controlled accounting system. The IFMIS is operating in 47 MPSAs as on November 30, 2015, and Circular No. 1 requires Controlling Officers to ensure that all financial transactions are captured in the IFMIS. Further it states that “failure to ensure all financial data is captured in IFMIS shall result in the Treasury instituting disciplinary action which shall include withdrawing your appointment as Controlling Officer.”

PI-23 (internal controls over payroll) showed good results for payroll controls except that annual payroll audits were not conducted. The annual audit by the Auditor-General does look at payroll and report discrepancies frequently—mostly failure to terminate retired or deceased officers from the payroll. Dimension 24.1 (procurement monitoring) shows a need for a better database that is a concern for control as the Auditor-General found common internal control weaknesses observed in most MPSAs to include flouting of procurement procedures. The assessment for dimension 25.2 (effectiveness of expenditure commitment controls) found that some excess expenditures occurred, but the system was generally effective. The rating for dimension 25.3 (compliance with controls for making payments) was affected by significant noncompliance with controls and by many modified audit opinions on departmental financial statements as reported by the Auditor-General in his 2015 report to Parliament.

The separation of duties is a key control and Circular No. 1 of 2016 to all Controlling Officers is very specific (see Box 4.2 box). Dimension 25.1 (segregation of duties) was rated B and is covered by the Accounting Manual and the Audit Committee Handbook so rules and scrutiny processes are specific.

#### **Box 4.2: Separation of Roles and Responsibilities**

***Separation of various roles and responsibilities in order to enhance controls shall be as follows:***

***(a) Procurement Committee members shall not undertake evaluations. Where a procurement committee member takes part in an evaluation, they must not take part in the approval of the procurement;***

***(b) Stores and procurement shall not be undertaken by the same staff; and User Departments shall not undertake procurements of any kind.***

***(c) Enhance contract management for all procurements;***

***(d) Controlling Officers in MPSAs where IFMIS has been implemented should ensure that all procurement of Goods, Works and Services are initiated and receipted through the system.***

***(e) MPSAs are required to commence the tendering process based on the approved 2016 budget allocations in order to accelerate implementation of programmes.***

On the revenue collection side, dimension 19.3 assesses whether sufficient controls are in place to deter evasion and ensure that instances of noncompliance are revealed, including through collusion with representatives within a revenue administration, and this was rated D because the investigation program was not linked to the compliance plan. Dimension 19.4 (revenue arrears monitoring) showed that the average stock of revenue arrears over 2013 through 2015 was 15.3 percent while the average revenue arrears older than 12 months were 70.5 percent.

**Information and communication.** All information such as transactions, procedures, and rules needs to be identified, captured, and communicated in a form and time frame that enables staff to carry out their internal control and program responsibilities. Therefore, the internal control system and all transactions and significant events should be fully documented and reviewed regularly by management and audit. Computerized information systems can produce reports that contain operational, financial and nonfinancial, and compliance-related information that makes it possible to run and control the operation to meet service delivery goals and maintain fiscal discipline.

The PIs for the accounting, reporting, and recording system have reasonable ratings under the current systems with potential for improved performance as manual systems are replaced and withdrawn. Dimensions 12.1 and 12.2 (financial and nonfinancial asset monitoring) were rated C and D respectively as records needed to be updated. Dimension 26.1 (coverage of internal audit) found that internal audit is operational for central government entities representing the majority of budgeted expenditure and central government entities collecting most budgeted government revenue.

**Monitoring of the internal controls system.** Monitoring arrangements are needed to ensure a strong internal control framework. The regulations contained in the Audit Committee Handbook provide for these arrangements: “3.03 An Audit Committee’s internal control responsibilities can be expected to include reviewing the adequacy of the MPSA’s internal control environment, to provide assurance that management has in place processes that are designed to ensure that the MPSA’s key controls are appropriate and operating as intended.”

Management has the primary responsibility for monitoring the effectiveness of its internal control procedures, especially by continuously maintaining a positive internal control environment. The regulations contained in the Audit Committee Handbook also provide for these arrangements: “3.07 The Controlling Officer is responsible for the maintenance of accounting records that may be relied upon in the preparation of financial statements, ensuring adequate systems of internal control and safeguarding the assets of the MPSA.”

### 4.3 PFM strengths and weaknesses

This section assesses the extent to which the PFM system, as measured by the PIs, constitutes an enabling factor for achieving the planned fiscal and budgetary outcomes that encompass aggregate fiscal discipline, strategic allocation of resources, and efficient use of resources for service delivery.

**Aggregate fiscal discipline** requires that the budget be delivered as planned, with effective systems for ensuring financial compliance by all staff engaged in PFM activities. The most relevant of these indicators are in Pillar I Budget credibility, and the assessment results indicate good aggregate fiscal discipline (PI-1) but that fiscal discipline at the component level needs closer control (PI-2). A loss of fiscal discipline is shown by the degree of arrears that have arisen. PI-22 shows inadequate arrangements for monitoring arrears; however, the stock of arrears has grown to about 2 percent of annual expenditure, which by PEFA standards is not substantial. The policy-based budgeting performance of Pillar III uses multiyear budgeting and a multiyear expenditure framework that supports well-managed fiscal planning. PIs in this pillar are rated well. Some budget execution PIs in Pillar V, PI-21 and PI-22, showed weakness in internal controls over expenditure and in-year budget management.

**Strategic allocation of resources** requires planning and executing the budget to be in line with government priorities aimed at achieving policy objectives. The most relevant indicator PI-2 showed that the composition of the budget outturns was very different from the approved budget in each of the 3 financial years examined. The budget execution PI-21 and PI-22 weaknesses again contributed through poor in-year budget control. Therefore, the upstream processes of budget formulation perform well, but their program allocations are not fully applied because of defects in the downstream processes of in-year budget execution.

Efficient service delivery requires that actual spending match budget allocations, resources are available for service delivery as planned, and costs are minimized. Noncompliance with the budget may lead to a shift across expenditure categories, and PI-2 showed that this occurred substantially to composition outturns. The assessment showed weaknesses in budget and expenditure information flows under PI-21 (predictability of in-year resource

allocation) and PI-28 (in-year budget reports) that would otherwise support the planning and management of services through reliable funds provision.

A major common issue across these budget outcomes is the degree to which the budget process is able to provide a realistic budget that meets expectations for services and at the same time can be supported by resource inflows. The discretionary amount available in the budget is reported as being very small and the fiscal position has become very tight. The processes of applying budget ceilings need to be very rigorous to maintain fiscal discipline across the component levels of the budget as well as at the aggregate level. Expectations will need to be reduced. The assessment of PI-2 showed various administrative heads who consistently overspent their allocation, others who consistently were cut, and others who were consistently kept close to their allocations. This consistency suggests that the budget could be more realistically set at the beginning.

## **S. 4.4 Performance changes since the 2012 assessment**

This section outlines changes observed since the previous assessment was conducted. Annex 4 provides a summary table of the PI scores for 2012 and 2016 using the 2011 PEFA Framework and brief explanations of the changes. The 2012 PEFA assessment identified various challenges to the reform effort. These were (a) ensuring high-level political coordination of reforms, operational coordination in itself not being sufficient, as evidenced in the process of PFM reform to date; (b) designing and implementing a change management strategy to facilitate the business process and institutional changes that will be part and parcel of the continuing rollout of the IFMIS, particularly in the decentralized environment that is currently in the planning stage; and (c) addressing continuing capacity constraints. Chapter 5 shows the extent to which these have been addressed.

Significant changes that have taken place in the assessment results for the various pillars based on the 2011 framework are as follows.

### **A. PFM Outturns: Credibility of the budget**

PI-1 Aggregate expenditure outturn was rated B in 2016 compared with D in 2012. This demonstrates the strong efforts that the GRZ has made toward fiscal discipline in ensuring that the budget outturn overall is in accord with the approved budget.

PI-2 Composition of expenditure outturn compared to original budget also improved from D+ to C+ due to lesser variations.

PI-3 Revenue outturn compared to original approved budget improved from C to B.

PI-4 Stock of expenditure payment arrears deteriorated from the rating of C+ to D+ due to lack of predictable funding which results in the buildup of arrears.

### **B. Key Cross-cutting issues: Comprehensiveness and transparency**

PI-6 Comprehensiveness of information included in budget documentation improved from the rating of C to B as seven out of the nine benchmarks under this PI were met compared to four) in 2012.

PI-7 Extent of unreported government operations rating improved from NR to B+ due to improvement in data capture since the last assessment.

PI-8 Transparency of intergovernmental fiscal relations improved from C in 2012 to B in 2016 assessment. Local Government Equalization Fund replaced some less effective rules-based grants and a Call Circular is issued by the MLGH at least 6 weeks before the due date and the implementation calendar year is equivalent to that of the central government.

PI-9 Oversight of aggregate fiscal risk from other public sector entities deteriorated from C to D+ due to reduction in public corporations with audited financial statements (accounts and audit pending).

## **C. Budget cycle**

PI 12 Multiyear perspective in fiscal planning, expenditure policy, and budgeting deteriorated from B to C+ due to high infrastructure projects embarked upon by the Government, which were outside the ministerial or sector plans.

PI 13 Transparency of taxpayer obligations and liabilities improved from B to A with improved access to the information institutionalized by ZRA.

PI 19 Competition, value for money and controls in procurement improved from D+ to C with improved availability of data about contracts awarded and other procurement information.

PI-22 Timeliness and regularity of accounts reconciliation decreased from the rating of B to C due to decline in reconciliations.

PI 24 Quality and timeliness of in-year budget reporting deteriorated from C to D+ with the increased delays in issuance of reports.

PI-25 Quality and timeliness of annual financial statements rating improved from C+ to B+ as there was an improvement in the timeliness of submission of annual financial statements for audit.

PI 27 Legislative scrutiny of the annual budget law improved from the rating of C+ to B+ due to improvements in rules for approving amendments.



This chapter discusses the government's overall approach to PFM reform and describes recent and ongoing reform initiatives to improve PFM performance. Reform actions were examined during the PEFA assessment. The GRZ assessors considered relevant reform measures for each of the PIs, and Annex 5 provides a table of the results. This work will be further considered in the process leading to the next PFM Reform Strategy.

### ***5.1 Approach to PFM reforms***

The GRZ developed the PFM Reform strategy to continue with the reforms in the area of public finance management after the Public Expenditure Management Financial Accountability (PEMFA) Program came to an end in 2011. The PFM Reform Strategy for Zambia has applied a holistic, systemic view of the PFM system to consolidate macroeconomic stability, one of the key objectives in the Revised Sixth National Development Plan (R-SNDP).

The ultimate goal of the PFM Reform Strategy is therefore to ensure efficient, effective, and accountable use of public resources as a basis for economic development and poverty eradication through improved service delivery.

The PFM reforms are largely focused on the creation of more fiscal space, by way of improvements in public expenditure and financial management. The GRZ recognizes PFM as an essential ingredient for efficient service delivery, strategic resource allocation, sound management of resources, and fiscal discipline. To underpin the government's commitment to these reforms and provide a long-term planning horizon, the GRZ PFM reform agenda is informed by a medium- to long-term policy framework for national planning, which includes the Vision 2030 and the five-year NDPs, presently the R-NDP (2013–2016). The MoF Strategic Plan (2012–2016) also places PFM as a key component of the ministry's reform agenda.

The macroeconomic focus of the R-SNDP is to improve the livelihood of the Zambian people through promoting growth in sectors that employ a lot of people and stability in the prices of essential and other commodities. To raise and broaden economic growth and employment, the growth and investment strategy will be accompanied by continued implementation of structural reforms including PFM reforms. This requires strengthening all key components of the PFM system, from planning, budgeting, revenue, mobilization, and collection to procurement, accounting, financial reporting, external audit, and parliamentary oversight.

The government in its quest to continue to improve PFM operationalized the PFM Reform Strategy (2013–2015), which was approved by Cabinet in April 2012, by the development of the PFMRP that was launched on August 19, 2014. The PFMRP is being supported by DFID, KfW of Germany, and the Government of Finland that have committed US\$30 million for the program. The funding is managed by the World Bank as the administrator of the Multi-Donor Trust Fund (MDTF). In addition, the EU is also supporting complementary PFM reforms under the 10th European Development Fund (EDF). The support is currently being provided under the Accountability and Statistics Programme with a total of EUR 13 million.

To coordinate the implementation of the PFM reforms, a unit under the Office of the Accountant General has been established and is mainstreamed in the MoF and managed by GRZ staff supported by Advisors.

The Reform Unit is led by a senior-level GRZ officer as Program Coordinator who is responsible for the management of the overall reform program.

## **5.2 Recent and ongoing reform actions**

The government is implementing the PFMRP Phase I over 2014–2017. The development objective of the PFMRP is to contribute to improving the efficiency and accountability of public resources. In line with the PFM Reform Strategy, this program is focused on ten reform areas: (a) Integrated Planning and Budgeting, (b) Debt Management, (c) Government Investments, (d) Domestic Revenues, (e) Fiscal Decentralization, (f) Integrated Financial Management Systems and Cash Management, (g) Public Procurement, (h) Enhanced Internal Audit and Control, (i) M&E, and (j) Restructuring of the MoF.

The PFM Reform Strategy indicated the implementation period as 2013 to 2015. Considering the pace of the previous reforms and challenges faced at various levels, the implementation period for the PFMRP Phase I became early 2014 to end-2017. The PFM Reform Strategy will be revised after the 2016 PEFA assessment. The PFMRP is expected to assist in addressing some of the underlying weaknesses in the budget cycle as identified in the 2012 PEFA assessment as well as other PFM reviews that have been undertaken.

GRZ intends to develop the Phase II of the PFM Reform Program leaning from the success and limitations of the Phase I and requested the World Bank to initiate steps in this direction. PEFA results will form the basis for the Phase II of the program.

Under the 10th EDF, the EU is supporting PFM reforms in the four priority areas that include support to the National Assembly of Zambia, support to the MoF (Accountant General's Office), support to the government-wide monitoring and evaluation, and support to enhancing tax collection from mining, through effective regulation and monitoring of mineral production. The EU and Government are in the process of formulating a new PFM support programme focusing on the accountability of the use of public resources, improved planning and budgeting and enhanced domestic revenue mobilization.

### ***Achievements under PFM Reform Strategy since the last 2012 PEFA assessment***

While not all achievements could be reflected in the PEFA scoring framework, important milestones include the following:

#### ***Improvements in the legal and regulatory framework for PFM***

- The formulation of the Planning and Budgeting Policy that was approved by Cabinet in January 2014 and subsequent development of the Planning and Budgeting Bill to enhance the budget process and stakeholder involvement. The draft bill is expected to be enacted in 2017.
- The revision of the Public Finance Act to incorporate changes in the amended constitution of 2016 such as the requirement for supplementary budgets to be approved by the National Assembly before expenditure can be incurred. The Public Finance Act already provided for sanctions of staff involved in any financial misconduct.
- The PPA of 2008 is also undergoing revision to address weaknesses in the existing act such as capping contract variation amounts, strengthening the appeals process for resolving procurement disputes.

#### ***Improvements in PFM systems and processes***

- Establishment of the Treasury Section in the Office of the Accountant General headed by a Deputy Accountant-General to enhance treasury management.
- Piloting and rollout of the TSA to seven sites to facilitate improved disbursements of fund as well as effective management of bank balances.
- Rollout of the IFMIS to a total of 48 out of 56 sites in Phase I.
- Development and piloting of the electronic government procurement system (eGPS), which is an end-to-end automation of the procurement process to facilitate supplier registration, tender advertisement, bid submission

and evaluation, and contract management. The eGPS was launched by the Vice President of the Republic of Zambia on behalf of the President.

- Development of the internal audit manual based on the IIA' standards and 245 Internal Auditors were trained in the use of the manual to conduct their work
- Development of a number of manuals on specialized audits such as Information Technology (IT) audits, performance audits, and risk-based audits. The Audit Command Language (ACL) was also upgraded and enables the auditing of computerized financial management systems such as the IFMIS and Payroll Management and Establishment Control System by Internal Auditors who have been trained to conduct IT audits. This enables Internal Auditors to run queries that have been automated resulting in production of internal audit reports on exceptions that require further investigations.
- Establishment of Audit Committees in MPSAs and members sensitized on their roles in corporate governance and internal and external audits. The Audit Committee Handbook has also been updated and used to train Audit Committee members.
- Completion of the Mineral Value Chain Monitoring Project, the main objective of which is to put in place a mechanism for monitoring the mining and mineral value chain from exploration to exportation of minerals within and out of Zambia. Two main modules of this monitoring framework are (a) the Mineral Production Reporting (provides an interface for mining companies to submit their mineral production reports online) and (b) the Export Permit Issuance Module (allows the mines to apply for their mineral exports online). The 12 biggest copper mining companies are being piloted and are currently able to make their submissions of their production reports online. Data input by mining companies being equally done on the system. The Mineral production reporting module uses the data collection procedures put in place by the EU project with the support of a new regulatory framework. Through the EU project, a new form for collecting data (Form 34) has been developed and introduced in the 12 larger mines producing 99% of Zambia's copper, appropriate supporting legislation/regulation has been introduced and data are now captured at all stages of the value chain, making reconciliation possible and eliminating underreporting and double counting. The gemological laboratory of the Geological Survey Department is operational and able to determine the value of gemstones exported before they are put to auction. A fully operational export permit system (MCAS) replacing the previous paper-based system has been put in place by the EU project
- Development and piloting of the transit tracking and suspense regime system has been at three border posts to track trucks transiting through Zambia to the neighboring countries. This has resulted in trucks off – loading merchandise that is destined to neighboring countries being impounded and thus preventing loss of GRZ revenues.
- Development and delivery of the balance of payments system to the BoZ for improved monitoring of balance of payments.
- Implementation of the electronic records management system to automate all records of the ZRA to facilitate archiving and retrieval of tax records.
- Implementation of specialized investigation tools and processes to aid in enhanced tax collections.
- Development and rollout of the case management system; Internal Affairs staff use this system for their work flows.
- The expected result indicator under revenue administration is that the tax compliance will increase resulting in increase in revenue collections across all taxes and should be within 19.7+0.3 percent of GDP.

***Under the EU support, the following achievements have been attained***

- A competency framework for accountants has been developed to provide the basis for training of accountants

while that of auditors and procurement staff is being worked on.

- An interim Parliamentary Budget Office has been set-up at the National Assembly of Zambia, providing regular technical and analytical inputs to MPs and Committees in their scrutiny of the budget.

### **5.3 Institutional considerations**

#### **Government leadership and ownership**

The GRZ remains committed to the PFM reforms that are being undertaken and leadership is at the highest level. As far as possible, existing government structures and responsibilities are used for implementation of the PFMRP by mainstreaming the arrangements and ensuring sustainability. The ST is responsible for the implementation of the reform. The Permanent Secretary of the Economic Management and Finance Division (PS-EMF) at the MoF is responsible for providing first-level oversight of the PFMRP. The PS-EMF is also the Chairperson of the PFMRP Technical Committee to deal with specific PFMRP and project outputs. The PFM Reform Unit Coordinator reports to the PS-EMF for day-to-day management and coordination matters and will elevate it to the ST when the situation warrants.

The individual PFM components are managed by senior officers responsible to the heads of the relevant agencies—Accountant-General, Controller of Internal Audit, Commissioner General of ZRA, Director General of ZPPA and Directors—Planning and Budget, OAG, and the Chief Executive of the ZICA. The component heads will be responsible and accountable for their respective component deliverables with appropriate support from the PFM Reform Unit in the MoF.

The governance structure of the current PFM reforms is anchored at the apex by the Public Service Reform Program (PSRP) Steering Committee chaired by the Secretary to the Cabinet, which provides overall coordination and policy guidance to the structural reforms being undertaken by the government such as the PFMRP and decentralization.

Below the PSRP Steering Committee, there is a JGDC, which is the main oversight body responsible for high-level policy monitoring and overall management of the PFMRP and is co-chaired by the ST and one of the heads of the contributing donor partners of the MDTF. This committee meets quarterly.

#### **Coordination across the government**

The MoF is responsible for coordinating the PFM reforms across the government. All key stakeholders are involved in the reform process at different stages of implementation.

- Direct involvement. This happens when reform measures have an impact on the way their institutions perform their functions. For example, the deployment of the IFMIS, TSA requires active participation through sensitization and end user training to enable them to use the system to process financial transactions.
- Awareness campaigns. Sensitizing stakeholders on government reform measures being implemented to improve PFM to enhance accountability and transparency in the use of public resources.
- Specific PFM reform measures are implemented by government institutions in collaboration with the MoF. These include parliamentary reforms, tax administration reforms, and public procurement reforms. Development partners are also supporting PFM reforms in specific sectors such as education, health, and so on. Unfortunately, some of these reforms are not in collaboration with the MoF that has the mandate for spearheading PFM reforms. Moving forward, development partners must involve the MoF from the start to avoid duplication and complexities that may arise due to failure to collaborate. It is also the mandate of the MoF to develop and deploy PFM system in the public sector in line with the Public Finance Act.

## Sustainable reform process

To ensure sustainability of the PFM reform process, the government has made sure that the reform process is spearheaded by government staff and where technical capacity is lacking external experts are hired to support the reform process where possible and the capacity of government staff is built. Currently, task teams headed by a Director or Assistant Director have been constituted in each of the implementing institutions to undertake reform activities in these institutions.

The government has also continued to provide counterparty funds to meet recurrent costs although the funding sometimes is erratic. This can be mitigated by agreeing with partners that the PEs costs, office space, and other in-kind contributions could be monetized and taken as part of counterparty funding.

## Transparency of the PFM program

To ensure buy-in and support from key stakeholders, the development and implementation of the PFM reforms must be done in a transparent manner by ensuring that all key stakeholders are involved and documentation on the process is made widely available. The development of the PFM Reform Strategy and the program followed the same pattern that included consulting stakeholders and making the documentation available through the MoF website. The PFM Reform Strategy and PFMRP were also launched to publicize the reform program and the measures that the government is undertaking to improve PFM. The program documents are also available on the website for the MoF though progress reports have not been widely publicized as expected. Currently a website on the reforms is being developed to provide stakeholder with information on the reform measures that the government is undertaking to improve accountability and transparency in the use of public resources.

## Annex 1: Performance Indicator Summaries

**Table A1: 2016 Performance Indicator Summary - 2016 PEFA Framework**

Current Assessment		
Indicators/Dimension	2016 Score	Description of Requirements Met
<b>Pillar I. Budget Reliability</b>		
<b>PI-1 Aggregate expenditure outturn</b>	<b>B</b>	The outturns for 2013, 2014, and 2015 were 107%, 94%, and 115% of budget, respectively.
<i>1.1 Aggregate expenditure outturn</i>	<i>B</i>	<i>Same as in PI-1</i>
<b>PI-2 Expenditure composition outturn (M1)</b>	<b>D+</b>	Although contingency expenditures were very low, composition variances for both administrative and economic classifications were high.
<i>2.1 Expenditure composition outturn by function</i>	<i>C</i>	<i>The deviation was more than 15% in 1 of the 3 years; 2013, 2014, and 2015 - 22.0%, 12.4%, and 14.3%, respectively.</i>
<i>2.2 Expenditure composition outturn by economic type</i>	<i>D</i>	<i>The deviation was more than 15% in all 3 years; 2013, 2014, and 2015 - 22.9%, 25.8%, and 22.9%, respectively.</i>
<i>2.3 Expenditure from contingency reserves</i>	<i>A</i>	<i>Expenditure from contingency was less than 3 percent in all the years – 0.1% in all the years 2013, 2014 and 2015.</i>
<b>PI-3 Revenue outturn (M2)</b>	<b>C+</b>	The decline in revenue composition outturn worsened the overall revenue outturn scoring to C+.

3.1 Aggregate revenue outturn	A	Actual revenue was between 97% and 106% of budgeted revenue in at least 2 of the last 3 years.
3.2 Revenue composition outturn	D	Variance in revenue composition was more than 15% in 2 of the last 3 years.
<b>Pillar II. Transparency of Public Finances</b>		
<b>PI-4 Budget classification</b>	<b>B</b>	Uses the GFS/COFOG standards but not required at the sub function level.
4.1 Budget classification	B	Same as in PI-4
<b>PI-5 Budget documentation</b>	<b>B</b>	Three basic elements are fulfilled and four additional.
5.1 Budget documentation	B	Same as in PI-5
<b>PI-6 Central government operations outside financial reports (M2)</b>	<b>C+</b>	Overall performance is strong because of the high extent to which government revenue and expenditure are reported outside central government financial report. It was rated C+.
6.1 Expenditure outside financial reports	B	<i>Expenditure outside government financial reports is less than 5% of total BCG expenditure. All donor-funded projects in line ministries are captured in the annual budget.</i>
6.2 Revenue outside financial reports	B	<i>Revenue outside government financial reports is less than 5% of total BCG expenditure. All donor-funded projects in line ministries are captured in the annual budget.</i>
6.3 Financial reports of extra-budgetary units	D	<i>Donor-funded projects in two major sectors (Health and Education) were reported through the financial report during the period under review. As for parastatal organizations, there were at least 50% that did not have audited financial statements for the period.</i>
<b>PI-7 Transfers to sub-national governments (M2)</b>	<b>B+</b>	The government makes transfers to subnational governments through the Equalization Fund and the CDF. The Equalization Fund is disbursed to LGAs to supplement their operations and capital projects budgets.
7.1 System for allocating transfers	B	The level of funding to the Local Government Equalization Fund has been set at 5% of income tax collected in a particular period and is distributed according to a formula. The formula takes into account population and poverty levels. The CDF budget provisions is arrived at after consultations with all key stakeholders (MPs, Treasury, local government) and is dependent on the projected revenue envelope for the next fiscal year. Once this has been agreed, the amounts are equally distributed to all constituencies.
7.2 Timeliness of information on transfers	A	The Ministry of Local Government issues the Call Circular to local authorities and they are required to make submissions by end of October.
<b>PI-8 Performance information for service delivery (M2)</b>	<b>C</b>	Performance information is available through Budget Speeches and Call Circulars. Surveys and external evaluations have been conducted to evaluate performance of service delivery units.
8.1 Performance plans for service delivery	C	<i>Information is published annually, in the Yellow Book, on the activities to be performed under the programs for the majority of the ministries and all Ministers make public ministerial statements made in Parliament to support the performance plans as outlined in the Yellow Book.</i>

8.2 Performance achieved for service delivery	C	Information is published annually on activities performed for majority of the ministries in the Yellow Book.
8.3 Resources received by service delivery units	C	Surveys are conducted in various sectors. Evaluations of the efficiency and effectiveness of service delivery have been carried out at least once in the last 3 years in various sectors, such as Agriculture, Health, and Education, of how resources are distributed and used to attain set goals.
8.4 Performance evaluation for service delivery	C	Evaluations of the efficiency or effectiveness of service delivery have been carried out for some ministries at least once within the last 3 years. Performance audits on at least 11 out of the 24 ministries were conducted by the OAG to evaluate efficiency or effectiveness of service delivery representing 44% of the ministries.
<b>PI-9 Public access to fiscal information</b>	<b>D</b>	In providing the public with access to fiscal information, the government has only met three (3) of the basic elements and all the additional elements listed. However, to score a C a minimum of the four basic elements must be met. This means that the public does not have timely access to fiscal information thus resulting in a D score.
<b>Pillar III. Management of Assets and Liabilities</b>		
<b>PI-10 Fiscal risk reporting (M2)</b>	<b>D+</b>	Monitoring is inadequate to know or manage the fiscal risks from public corporations and subnational government.
10.1 Monitoring of public corporations	D	No single unit under the IDM Department is responsible for tracking the submission of audited financial statements from public corporations. In addition, the sample audited by the OAG shows that 50% of government corporations did not submit audited financial statements.
10.2 Monitoring of subnational governments	C	The Ministry of Local Government monitors the preparation of financial statements by subnational government/councils. The local government auditors undertake the audit of councils but most councils have not been audited for the past 9 years as this unit is understaffed and their qualifications are not up-to-date.
10.3 Contingent liabilities and other fiscal risks	D	The government guarantees loans on behalf of agencies upon assessing their viability. The government through the IDM records the loan guarantees through the loan agreements (terms, amounts, and purpose). When these guarantees become payable and the agencies are unable to pay, the government recognizes the debt in the financial report.
<b>PI-11 Public investment management (M2)</b>	<b>D</b>	There is currently no system in place to coordinate and oversee major investment projects.
11.1 Economic analysis of investment proposals	D	Economic analyses are not conducted, guidelines are in draft form, and major investment projects are not assessed or reviewed by an entity other than the sponsoring entity.
11.2 Investment project selection	D	There is no formal system in place for government project selection. Ministerial decisions are made subject to the National Plan.
11.3 Investment project costing	D	Comprehensive financial analysis of investment projects is not taken into account when budgeting for the medium term as more focus is on the budget year. The estimates indicated for the next 2 years are estimates which cannot be relied upon.

11.4 Investment project monitoring	C	There are no standard procedure and rules for project implementation in place. However, the physical progress of major investment projects is monitored by implementing government units and progress reports on major investment projects are prepared annually.
<b>PI-12 Public asset management (M2)</b>	<b>D+</b>	Financial and nonfinancial asset monitoring, and transparency of asset disposal has been weak.
12.1 Financial asset monitoring	C	<i>The government maintains a register of its holdings in major categories of financial assets. However, the information available is in percentage terms only without indication of fair or market values.</i>
12.2 Nonfinancial asset monitoring	D	<i>A register of government holdings of fixed assets is maintained and partial information on their usage and age is maintained. However, the information on assets is not published.</i>
12.3 Transparency of asset disposal	C	<i>Procedures and rules for transfer and disposal of assets are in place. However, only partial information is included in the budget documents, annual financial reports, and other reports.</i>
<b>PI-13 Debt management (M2)</b>	<b>C</b>	The Procedures Manual is in draft form and the DMS expired in 2011 and is being revised.
13.1 Recording and reporting of debt and guarantees	B	<i>Information on foreign debt and loan guarantees are recorded at least annually. The government uses the DMFAS for recording foreign debt. Domestic debt (not foreign debt) records are captured and reconciled daily using the CSD by the Bank of Zambia.</i>
13.2 Approval of debt and guarantees	C	<i>Primary legislation grants authorization to borrow, issue new debt and loan guarantees. However, the Procedures Manual is in draft and is awaiting the government's approval. There are no documented policies and procedures to guide the debt contracting process.</i>
13.3 Debt management strategy	D	<i>The DMS in place is outdated as it covered the period 2008 to 2011. A new DMS is being developed by the government.</i>
<b>Pillar IV. Policy-based Fiscal Strategy and Budgeting</b>		
<b>PI-14 Macroeconomic and fiscal forecasting (M2)</b>	<b>B</b>	Greater transparency is needed through independent review of the forecasts and tabling of forecast explanations.
14.1 Macroeconomic forecasts	B	<i>Forecasts of key macroeconomic indicators and underlying assumptions cover a three-year rolling period and are updated annually. Projections are formulated and reviewed by various government entities such as the BoZ and these are further submitted to the committee of Permanent Secretaries and then to the Cabinet for approval.</i>
14.2 Fiscal forecasts	B	<i>The forecasts are prepared but the explanations of the main differences from the previous forecasts are not explicitly included in the budget documentation submitted to the legislature.</i>
14.3 Macroeconomic sensitivity analysis	B	<i>The government prepares the sensitivity analysis for internal use.</i>
<b>PI-15 Fiscal strategy (M2)</b>	<b>A</b>	The fiscal strategy is provided to the legislature as part of the budget process and progress is explained in the Budget Speech.
15.1 Fiscal impact of policy proposals	B	<i>This information is provided to the legislature through the Budget Speech and is also available in the Green Paper.</i>
15.2 Fiscal strategy adoption	A	<i>The information is consolidated in the Budget Speech submitted to the legislature and subjected to debates.</i>



15.3 Reporting on fiscal outcomes	A	<i>The Budget Speech contains a section that reviews performance before providing the next course of action.</i>
<b>PI-16 Medium-term perspective in expenditure budgeting (M2)</b>	<b>B</b>	There is partial accordance with the requirements for aligning the budget to strategic plans and for explaining changes to expenditure estimates in the budget documents.
16.1 Medium-term expenditure estimates	A	<i>The estimates of expenditure are provided for a three-year horizon by administrative and economic classification.</i>
16.2 Medium-term expenditure ceilings	A	<i>Cabinet approves the proposed ceilings for the expenditure heads before the issuance of the Call Circular to MPSAs.</i>
16.3 Alignment of strategic plans and medium-term budgeting	C	<i>The alignment of expenditure proposals is not usually done by some MPSAs.</i>
16.4 Consistency of budgets with previous year's estimates	C	<i>The budget documents provide explanations for some of the changes to expenditure estimates.</i>
<b>PI-17 Budget preparation process (M2)</b>	<b>B+</b>	Very good performance except for the inadequate time given to MPSAs for budget preparation after ceilings are notified in the Call Circular.
17.1 Budget calendar	C	<i>The average period given to MPSAs for budgeting is 2—3 weeks and some do exceed the deadline.</i>
17.2 Guidance on budget preparation	A	<i>The Call Circular is comprehensive and distributed immediately after Cabinet approval.</i>
17.3 Budget submission to the legislature	A	<i>In all the last three budgets, submission has been made on the second Friday of October as per constitutional requirement.</i>
<b>PI-18 Legislative scrutiny of budgets (M1)</b>	<b>B+</b>	Robust legislative procedures for budget scrutiny exist which leads to timely approval of the annual budget. However, the review does not extend to medium-term fiscal forecasts and priorities.
18.1 Scope of budget scrutiny	B	This takes place through the debates on the Budget Speech and the Yellow Book as well as on revenue bills for the coming year with less focus on the MTEF.
18.2 Legislative procedures for budget scrutiny	B	This is done and the Estimates Committee conducts the specialized reviews.
18.3 Timing of budget approval	A	All the three budgets were approved in December.
18.4 Rules for budget adjustment by the executive	B	Clear rules existed during review period for in-year budget adjustments. Administrative reallocations occurred.
<b>Pillar V. Predictability and Control in Budget Execution</b>		
<b>PI-19 Revenue administration (M2)</b>	<b>C+</b>	Arrears are high and some uncollectable. More use of electronic payments could improve collections. Investigations should be programed through the overall compliance plan.
19.1 Rights and obligations for revenue measures	A	<i>Taxpayers have easy access to comprehensive and up-to-date information on their rights and obligations through channels including official website, Facebook Page, Call Centre, Client Service desks/ Advise Centre, billboards, brochures, print and electronic media, taxpayer workshops, client service charters.</i>

19.2 Revenue risk management	B	<i>There is a structured and systematic approach in place to assess and prioritize compliance risks made possible by the implementation of web-based administration systems for both domestic taxes (Taxonline) and customs (Asycudaworld). However, while payments for insurance levy can be made electronically on Taxonline, its returns are still being managed outside the system.</i>
19.3 Revenue audit and investigation	D	<i>A compliance plan indicating planned audits is in place for normal customs and domestic taxes but not for investigations.</i>
19.4 Revenue arrears monitoring	D	<i>The stock of revenue arrears for 2015 was more than 40%. It must be noted that a dedicated DRU has now been established in the Finance Division.</i>
<b>PI-20 Accounting for revenue (M1)</b>	<b>B+</b>	All indicators rated well.
20.1 Information on revenue collections	B	<i>The ZRA submits to the MoF tax revenue data at least monthly and the information is broken down by revenue type and is consolidated into a report.</i>
20.2 Transfer of revenue collections	A	<i>Tax revenue is transferred into Treasury-controlled accounts on a daily basis.</i>
20.3 Revenue accounts reconciliation	A	<i>Tax revenue reconciliations are done on a daily basis.</i>
<b>PI-21 Predictability of in-year resource allocation (M2)</b>	<b>C+</b>	Resistance to the rollout of the TSA was higher than expected and considerable numbers of bank accounts remain. MPSAs are not given reliable commitment limits for long enough to manage their programs well. Excess expenditures arise as well as arrears.
21.1 Consolidation of cash balances	C	<i>Most cash balances are consolidated on a monthly basis. However, for the 10 sites on TSA balances are consolidated automatically in real time. Electronic access to most of the bank accounts thus providing the Treasury the flexibility to consolidate the bank balances and fund activities as they fall due.</i>
21.2 Cash forecasting and monitoring	B	<i>Cash flow forecast reports (game plan reports) are prepared within the IFMIS system (for MPSAs on the IFMIS) and are available to authorized users in Budget Office who are able to consolidate the cash flows of all MPSAs on a quarterly basis.</i>
21.3 Information on commitment ceilings	C	<i>Quarterly funding profiles are available and provided to budgetary units one month in advance.</i>
21.4 Significance of in-year budget adjustments	C	<i>Supplementary Provision Warrants are available for each financial year. The adjustments to the budget are done whenever a need arises in accordance with the laid down law and procedures.</i>
<b>PI-22 Expenditure arrears (M1)</b>	<b>D+</b>	There is regular monitoring of arrears. However, the drawback is lack of predictable funding which results in the buildup of arrears resulting in the overall amount being more than 10% for the 4 consecutive years as per latest Internal Audit Report on 2015 and 2016 arrears.

22.1 Stock of expenditure arrears	D	The initial reports for 2013 and 2014, obtained from Controller of Internal Audit showed expenditure arrears were less than 2% of total expenditure. However, the latest report on the verification of arrears for 2016 indicates a sharp increase of more than 10% of total expenditure. The information on the stock of arrears is incomplete for 2013, 2014, and 2015 as it does not include arrears from other big spending agencies as per latest Internal Audit Report on the Verification of Arrears for 2015 and 2016. If the information in the latest report is extrapolated to include omitted arrears for 2014 and 2015, the percentage for the 2 years will be more than 10%.
22.2 Expenditure arrears monitoring	B	The accounting staff in MPSAs currently record and monitor expenditure arrears outside the IFMIS. The IFMIS currently does not provide the functionality for recording, analyzing, and monitoring of arrears. The record shows the age and movement of the arrears and the data on the stock and composition of arrears are ready within 8 weeks of the end of the quarter as per reports kept by MPSAs. The Controller of Internal Audit regularly verifies the arrears on a quarterly basis to ensure that the records are up-to-date and the arrears are legitimate. The Controller produces a report on the extent of all central government arrears in MPSAs.
<b>PI-23 Payroll controls (M1)</b>	<b>C+</b>	Payroll change management and payroll audit limited by resource limits.
23.1 Integration of payroll and personnel records	A	The approved staff list, personnel database, and payroll are directly linked to ensure budget control, data consistency, and monthly reconciliations.
23.2 Management of payroll changes	B	Changes to the payroll are supervised by staff from PMEC who have to travel to the various provincial centers every month when resources are available. Because of the budget constraints, changes have not been effected on a monthly basis as staff are unable to travel on a monthly basis.
23.3 Internal control of payroll	A	Authority to change records and payroll is restricted and results in an audit trail.
23.4 Payroll audit	C	Annual payroll audits do not exist as the exercise is not adequately and sufficiently supported on both human and financial resource.
<b>PI-24 Procurement management (M2)</b>	<b>C+</b>	A database for procurements information is needed to enhance monitoring capability. More consistent publication arrangements are needed for procurement planning, dispute resolution, and procurement statistics.
24.1 Procurement monitoring	D	Data are maintained manually as there is no electronic system to monitor performance, nor a database system. Monitoring is achieved through review of procurement committee minutes, annual procurement plan, quarterly reports, compliance assessments, procurement audits, and review of contracts. This process may be rigorous enough to provide accuracy for the majority of procurement methods, but it is not certain.
24.2 Procurement methods	B	A sample of contracts indicated that competitive methods were used for over 70% of the value of contracts. The PPA No. 12 of 2008 and PPR 2011 provide the rules of procedures. As per Regulation 8, of PPR 2011, the Second Schedule provides guidance on the applicable thresholds of procurement.

24.3 Public access to procurement information	C	Three key procurement information elements are available - regulatory framework, bidding opportunities and contract awards. Others are more ad hoc.
24.4 Procurement complaints management	B	The appeals process satisfies criterion 1 and three other criteria.
PI-25 Internal controls on non-salary expenditure (M2)	B	The score is on account of low adherence to commitment controls and compliance.
25.1 Segregation of duties	A	Segregation of duties is well spelled out in the Accounting Manual and the Financial Regulations including separation of roles in the workflows for the IFMIS.
25.2 Effectiveness of expenditure commitment controls	C	The commitment control system is not very effective as can be seen from the level of arrears for the last 3 years.
25.3 Compliance with payment rules and procedures	C	The Internal Audit and External Audit Reports reflect non-compliance with payment rules and procedures.
<b>PI-26 Internal audit (M1)</b>	<b>C+</b>	The coverage of internal audit is less than desirable because of available resources. Audit committees are not yet fully sanctioning recommendations.
26.1 Coverage of internal audit	C	Internal audit is operational for central government entities representing the majority of budgeted expenditure and central government entities collecting most budgeted government revenue. However, internal audit is not present in most central government entities at district level.
26.2 Nature of audits and standards applied	B	Though the internal audit function and audit activities meet professional standards, including a focus on high risk areas, the quality assurance process has not yet been implemented. The internal audit manual was recently revised to include the QAIP and a number of officers have been trained in QAIP. What remains is the implementation process.
26.3 Implementation of internal audits and reporting	C	Despite the existence of an annual audit program, the internal audit function does not carry out most of the programmed audits because of budgetary constraints. It was evidenced in most institutions that the actual number of programmed audits carried out were lower than the planned.
26.4 Response to internal audits	C	Information obtained during the audits conducted in most institutions visited indicated that management only provide partial responses to previous audit recommendations.
<b>Pillar VI. Accounting and Reporting</b>		
<b>PI-27 Financial data integrity (M2)</b>	<b>C</b>	Reconciliations are not timely.
27.1 Bank account reconciliation	D	Mostly not done on a monthly basis.
27.2 Suspense accounts	C	Majority not done regularly but are left up to year end.
27.3 Advance accounts	C	Reconciliation of the advance accounts are done annually but with delays.
27.4 Financial data integrity processes	B	All users of the system are restricted to their area of authorization and there is an audit trail. However, there is no specific unit that routinely verifies financial data integrity.

<b>PI-28 In-year budget reports (M1)</b>	<b>D+</b>	Many delays in producing these reports because of residual manual processes.
28.1 Coverage and comparability of reports	C	These cover budget, supplementary releases, and reported expenditure expressed as a percentage of funding quarterly.
28.2 Timing of in-year budget reports	D	Mainly delayed by an average of 2–4 months.
28.3 Accuracy of in-year budget reports	C	Mainly not conclusively reconciled at the time of posting the data on the ministerial website.
<b>PI-29 Annual financial reports (M1)</b>	<b>B+</b>	Performance has been strong on average for all the dimensions under this indicator except that for each of the 3 years around 50% of the reports receive audit qualifications from the Auditor-General.
29.1 Completeness of annual financial reports	A	The report takes the format of the budget outturn, comparing expenditure against original budget indicating budget variances.
29.2 Submission of reports for external audit	B	The submission of statements to Auditor General for audit is usually delayed. For instant, the statements for 2015 financial report were submitted to Auditor General between March and May, 2016. This is against the constitution provision of March 31 deadline. Delayed for about 40 days.
29.3 Accounting standards	B	The reports are prepared in accordance with GAAP. This is explained in the statement by the Accountant-General for each financial year.
<b>Pillar VII. External Scrutiny and Audit</b>		
<b>PI-30 External audit (M1)</b>	<b>D+</b>	There has been a strong performance in audit coverage and standards, while in submission of audit reports to the legislature, follow-up, and Supreme Audit Institution Independence performance has been slightly weak.
30.1 Audit coverage and standards	A	Audits are undertaken in line with the ISSAIs as per AFROSAI-E audit manuals.
30.2 Submission of audit reports to the legislature	B	Submitted within 6 months of receipt of financial statements.
30.3 External audit follow-up	C	There is a formal, comprehensive, and timely response made by the executive or audited entity. Although, there is a formal follow-up process of writing responses on action taken, the action is not very effective as some things remain unresolved.
30.4 Supreme Audit Institution independence	D	Revised legislation has formalized the arrangements for involving the legislature in the appointment of the Auditor-General and guaranteeing independence for operations. However, the absence of mandatory requirement for timely appointment of Auditor General in substantive position led to possibility of the key constitutional office continued on acting arrangement for extended periods.
<b>PI-31 Legislative scrutiny of audit reports (M2)</b>	<b>B+</b>	Timeliness and difficulties in ensuring corrective action can be issues.
31.1 Timing of audit report scrutiny	C	Scrutiny of audit reports on annual financial reports has been completed by the legislature within 8 months from receipt of the reports.
31.2 Hearings on audit findings	A	PAC holds in-depth hearings on key findings of audit reports regularly with responsible officers from all audited entities which received a qualified or adverse audit opinion. Every year PAC together with the OAG and the MoF meet to come up with a program to consider all reports issued by the OAG.

31.3 Recommendations on audit by the legislature	B	<i>The legislature issues recommendations on actions to be implemented by the executive and follows-up on their implementation. Although there mechanisms for following action are being undertaken, the legislature relies on the Treasury to report progress being made. The executive does report progress made although in some cases no action is undertaken.</i>
31.4 Transparency of legislative scrutiny of audit reports	A	<i>All hearings are conducted in public except for strictly limited circumstances such as discussions related to national security or sensitive discussions. Committee reports are debated in the full chamber of the legislature and published on an official website or by any other means easily accessible to the public. PAC hearings are also broadcast on Parliament radio, national and private television, and stories carried out in the print media.</i>

## Annex 2: Summary of Observations on the Internal Control Framework

Internal Control Components and Elements	Summary of Observations
1. Control environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization.	Staff are well qualified with appropriate professional qualifications. Accounting staff in particular belong to a professional body requiring members to uphold a code of ethics. PFM components are managed by senior officers who are heads of relevant agencies, for example, Accountant-General, Controller Internal Audit, Chief Executive of the ZICA, and Commissioner General of Taxes. Continuing deficiency in internal control systems has been identified by the Auditor-General.
1.2. Commitment to competence	There has been significant improvement in several areas of PFM notably in aggregate expenditure outturn and transparency of transfer of funds to subnational governments. Other notable improvements are in revenue administration, procurement management, and financial reports.
1.3. The 'tone at the top' (that is, management's philosophy and operating style)	There is high-level involvement by top management in providing policy and operational direction in the implementation of the PSRP. The Secretary to the Cabinet is the Chairman of the PSRP.
1.4. Organizational structure	Existing government structures and responsibilities are used for implementation of the PFMRP by mainstreaming the arrangements and ensuring sustainability.
1.5. Human resource policies and practices	No information is available from the PEFA assessment.
2. Risk assessment	
2.1 Risk identification	Management and monitoring of assets and liabilities are inadequate to identify or manage fiscal risks of public corporations and subnational government (local authorities).
2.2 Risk assessment (significance and likelihood)	Public corporations and local authorities do not submit financial reports in good time (in some cases audited statements have not been submitted for 9 years). This facilitates lapses in internal controls and raise risk.
2.3 Risk evaluation	The ZRA has put in place a structured approach to identify, assess, prioritize, and mitigate risk. Risk management is an integral part of multiyear, strategic, and operational planning.

2.4 Risk appetite assessment	Contingent liabilities, unfunded superannuation liabilities, and guarantees are not consolidated, and therefore the extent of the risk is not known.
2.5 Responses to risk (transfer, tolerance, treatment or termination)	The ZRA has in place a web-based administration system to assess and prioritize compliance risks. Audit coverage and scope are based on overall risk assessment.
3. Control activities	
3.1 Authorization and approval procedures	Authorization and approval procedures are well documented in appropriate regulations such as the Finance Regulations, Public Stores Regulations, MoF Accounting Manual, and other procedures manuals.
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	Rollout of the IFMIS has facilitated enhancement of segregation of duties. All processes of payments made can be traced to all officers who play a role in the process.
3.3 Controls over access to resources and records	Budgetary units are provided with information of funding on a monthly basis. Treasury communicates to institutions when there are cash flow problems
3.4 Verifications	The office of the Controller of Internal Audits conducts verification of outstanding arrears for goods and services.
3.5 Reconciliations	There is poor reconciliation of bank accounts by MPSAs. Suspense accounts are not being cleared on time. Advance accounts are cleared monthly.
3.6 Reviews of operating performance	Strong performance is observed in transparency of public finances, policy-based fiscal strategy, budgeting, external scrutiny, and audit. Relatively poor performance is observed in management of assets and liabilities and predictability and control of budget execution.
Budget reliability, accounting, and reporting have mixed results.	
3.7 Reviews of operations, processes, and activities	Initiatives are being undertaken to improve PFM systems that include development and piloting of the eGPS and development of manuals on specialized audits such as IT audits and performance audits, among other initiatives.
3.8 Supervision (assigning, reviewing, and approving, guidance and training)	A complete framework for accountants has been developed to provide basis for training of accountants while that of auditors and procurement is being worked on.
4. Information and communication	Fiscal impact of policy proposals is available to the public. Budget execution reports are published on the website (though belated).
Tax payers have access to comprehensive and up-to-date information on their rights and obligations.	
5. Monitoring	
5.1 Ongoing monitoring	Monitoring capability by the Public Procurement Agency is constrained by absence of an electronic data base of procurement information
5.2 Evaluations	The ZPPA has put in place rules defining threshold values to determine which selection methods should be used. It prescribes open bidding and open selection as the default methods of procurement.
5.3 Management responses	Procurement complaints management is fairly satisfactory.

## Annex 3A: Related Surveys and Analytical Work

There are no specific surveys or analytical work taken up for the purposes of this assessment, except the data collection and analysis, which forms part of standard PEFA Assessment. However, the assessment benefitted from several other pieces of analytical work, done independent of the PEFA Assessment. These include:

- **A Diagnostic Framework: How to Assess the Capacity of a Government's Financial Management Information System as a Budget Management Tool:** This paper, published as World Bank's IEG Working Paper 2016/No.1, included the implementation of the IFMIS in Zambia in its assessment sample. *The overall assessment for Zambia were as follows: Paragraph 3.11 Overall assessment for Zambia-*

•	TSA Status	Score 3 out of 10
•	FMIS Coverage	Score 14 out of 25
•	Core Functionality	Score 22 out of 40
•	Ancillary Features	Score 7 out of 15
•	Technical Aspects	Score 8 out of 10
•	Total System Strength	Score 54 out of 100

A review of the system scores suggests that having a fully functional FMIS in place alone is not a sufficient condition for it to serve as a good budget management tool. Some countries with good scores in functionality and technical aspects such as Ghana, Sierra Leone, and Zambia, continue to have mediocre overall ratings owing to, for example, an insufficient underlying policy environment (as reflected by the TSA), the coverage of the system and therefore the extent of its use, or the application of its controls.

- **Tax Administration Diagnostic Assessment Tool - Performance Assessment Report for Zambia, May 2016:** This report was prepared at the request of Mr. Berlin Msiska, Commissioner General of the ZRA, and provides definitive up-to-date assessment information for the PEFA assessment of the revenue performance indicators PI-19 Revenue administration and PI-20 Accounting for revenue. Encouragingly the report found that the ZRA has a sound tax administration structure, with a number of systems that encourage taxpayer compliance, but that despite this taxpayer compliance is generally low. Specific issues that the report noted in its summary were low on-time filing rates, very high levels of arrears, a backlog of VAT refund claims, fragmented systems to analyze and manage compliance risks, and little evidence of analysis of internal or external data or of audit outcomes to improve internal decision making and taxpayer compliance. This assessment demonstrates potential for reform actions that could improve revenue outcomes.

- **IMF-World Bank joint PIMA mission (February 2017):** The report on Public Investment Management Assessment for Zambia, has contributed to the PEFA Assessment.

### Annex 3B: List of Stakeholders Consulted (Illustrative)

Name	Institution	Position
MoF		
Dick Chellah Sichembe (Dr.)	Office of the Accountant General	Accountant General
Joel M. Ukwimi	Office of the Accountant General	Deputy Accountant General, Policy Research and Standards
Tamara Ngoma	Office of the Accountant General	Deputy Accountant General, Treasury Services
Mporokoso Mwanza	Office of the Accountant General	Chief Accountant General, Financial Reporting and Information
Fred Muyowe	Office of the Accountant General	Principal Accountant, Financial Reporting and Information
Mwaka Mukubesa	Budget Office	Director, Budget
Mpongwe Ndebele Shawa	PFMRP Coordinating Unit	M&E Specialist



William Kabwe	Investment and Debt Management	Director
Mwila K Zulu	Investment and Debt Management	Principal Economist
Susiku Akapelwa	Investment and Debt Management	Chief Economist
Felix Sibalwa	Investment and Debt Management	Acting Senior Accountant
Mukuli Chikuba	Economic Management Department	Director
Ireen Musonda-Habasimbi	Economic Management Department	Chief Economist
<b>MNDP</b>		
Ngoza Munthal	National Investment, Planning, and Analysis	Acting Director
Nasilele Lubinda	National Investment, Planning, and Analysis	Assistant Director
Hudson Mulumbe	National Investment, Planning, and Analysis	Program Implementation Officer
James Mbewe	Donor Coordination	Principal Economist
Anthony Silungwe	Central Statistical Office	Senior Statistician
Palver Sikanyiti	Central Statistical Office	Senior Demographer
Gerson Banda	Central Statistical Office	Senior Statistician
<b>Ministry of Health</b>		
Rita M. Banda	Ministry of Health	Planner
Catherine M. Sibwowa	Ministry of Health	Procurement and Supplies Officer
Ringo Zulu	Ministry of Health	Principal Internal Auditor
Robert Mvula	Ministry of Health	Principal Accountant
<b>Ministry of Works and Supply</b>		
Margaret Mwale	Ministry of Works and Supply	Chief Accountant
Henry M. Change	Ministry of Works and Supply	Principal Accountant
Miselo Chita	Ministry of Works and Supply	Internal Auditor
Milika H. Nalucha	Ministry of Works and Supply	Human Resource Management Officer (HRMO)
Abraham Banda	Ministry of Works and Supply	SEO
<b>Ministry of Agriculture</b>		
Beatrice Chilomo	Ministry of Agriculture	Chief Accountant
Ruth Kumwenda	Ministry of Agriculture	Assistant Accountant
M Kaluba	Ministry of Agriculture	Accountant
O Malasha	Ministry of Agriculture	Accounts Assistant
Dickson Lungu	Ministry of Agriculture	Accounts Assistant
Sylvia Sichone	Ministry of Agriculture	Head PSU
Mutinta Mbozi	Ministry of Agriculture	Assistant Accountant
Martha Mukutu	Ministry of Agriculture	Senior Internal Auditor
Medwiney Kabonde	Ministry of Agriculture	Assistant Accountant
Sibeso Mundia	Ministry of Agriculture	Senior Accountant
Shadreck Mtonga	Ministry of Agriculture	Principal Accountant
Levis Kaluba	Ministry of Agriculture	Acting Internal Auditor
Bwalya K Mulenga	Ministry of Agriculture	Internal Auditor

Beatrice Zulu	Ministry of Agriculture	Principal Internal Auditor
James Chibanga	Ministry of Agriculture	Accountant
Timove Chooka	Ministry of Agriculture	Acting Internal Auditor
Henry Kumwenda	Ministry of Agriculture	Assistant Accountant
Mary Michelo	Ministry of Agriculture	Principal Economist – PPD
<b>Ministry of General Education</b>		
Joseph F. Nthele	Ministry of General Education	Acting Director Planning and Information
Aaron Mwale	Ministry of General Education	Internal Auditor
Mukelabai Simbuwa	Ministry of General Education	Planning Officer (Budget and Projects)
Beaumont Chilongo	Ministry of General Education	Senior Procurement and Supplies Officer
Richard Chisha	Ministry of General Education	Accountant
<b>ZRA</b>		
Dingani Banda	ZRA	Commissioner Customs Services
Ezekiel Phiri	ZRA	Director Research and Planning
Tilson Musowoya	ZRA	Assistant Director Corporate Planning
Yvonne Mwanza	ZRA	Assistant Director Processing and Enforcement (Indirect Taxes)
Chiseche Ngoma	ZRA	Assistant Director Treasury
Yenda Shamabobo	ZRA	Senior Economist Policy Coordination
Loveness Chansa	ZRA	Senior Revenue Accountant
Lubasi Mundia	ZRA	Manager of Headquarters and Back Office Operations (DRU)
<b>OAG</b>		
Ron Mwabwa Mwambwa	OAG	Acting Auditor-General
Chuma	OAG	Principal Auditor
Phales C Phiri	OAG	Acting DAG - Audit
Alex Ndhlovu	OAG	Acting DAG CSD
Louis Mwansa	OAG	Director CP&I
Sally Sarcih Rose	PAG	Assistant Director PQRS
Magaisa Phiri	OAG	Principal Auditor
Vincent Sampa	OAG	Acting Assistant Director
Evans H Buumba	OAG	Acting Director
Chuma	OAG	PA Projects
<b>ZPPA</b>		
Dr Chibelushi Musongole	ZPPA	Director General
Gloria Ngoma	ZPPA	Director, Compliance Monitoring
Vida Kamanya	ZPPA	Manager, Contracts and Procurement Audits
Ethel Nunkwe Kayonde	ZPPA	Manager, Compliance Monitoring
<b>Parliament</b>		

Mbulakulima Mwansa	Parliament	PAC
Maxwell Kabanda	Parliament	Local Government Committee
Dr. C Kalila	Parliament	Health, Community, and Social Services
Sage Samuwika	Parliament	C/Clerk PAC
Stephen C Kawimbe	Parliament	Principal Clerk - Committees
M F Kateshi	Parliament	Revenue and Expenditure Analyst
Anthony Tsekpo	Parliament	Team Leader - Support to NA Project
Ferdinand Chikambwe	Parliament	Budget Office
Ole Graph	Parliament	PM Consultant - EU Support Project
<b>Policy Monitoring and Research Centre (PMRC)</b>		
Akabondo Kabechani	PMRC	Head of M&E
Lubinda Oyat	PMRC	Accountant
<b>Citizens Economic Empowerment Commission (CEEC)</b>		
Likando Mukumbuta	CEEC	Director General
Christopher Sichinga	CEEC	Director Finance
Elijah Mkandawire	CEEC	Treasury Accountant
<b>Anti-Corruption Commission (ACC)</b>		
Mathews Mbewe	ACC	Secretary to the Commission
Isaac Chilunge	ACC	Director, Investigations
Lawrence Hanijuwa	ACC	Director, Legal and Prosecutions
Mhanuja Sokho	ACC	Director, Corruption Prevention
<b>Provincial Administration and Districts</b>		
<b>Kafue District</b>		
Thomas H. Lungu	MoE - Kafue District Education Board	District Education Board Secretary (DEBS)
Kapwepwe Nthele	Ministry of Agriculture - Kafue District	Senior Agriculture Officer
Fywell Nkhoma	Kafue District Hospital	Accounts Assistant
Fungai Mondwa	MoE, Kafue District Education Board	Assistant Accountant
Fzica B. Hamusokwe	Ministry of Health - Kafue District	Assistant Accountant
Miwambo K. Hamaundu	Ministry of Agriculture/Ministry of Fisheries and Livestock - Kafue District	Executive Officer
Ronah Hibanyama	Ministry of Community Development and Social Welfare - Kafue District	Secretary
Lista Nckumba	Zambia News and Information Services (ZANIS)	Acting District Information Officer
Maritina Kalemba	Kafue District Council	Internal Auditor
Coreen Lukonga	Kafue District Council	Chief Administration Officer
Thebuho K. Matokwani	Ministry of Community Development and Social Welfare - Kafue District	District Social Welfare Officer

Joseph Kamana	District Commissioner's Office	Acting District Commissioner
Chongwe District		
Francis Lungu	Ministry of Agriculture - Chongwe District	Assistant Accountant
Andrew Kabaso	Ministry of General Education - Chongwe District	Accounts Assistant
Misozi Phiri-Banda	Chongwe Council	District Planner
Steven Chilufya	SD	Government Officer
Charles Simulunga	Ministry of Agriculture - Chongwe District	District Agriculture Coordination Officer (DACO)
Mukenani Nyambe	Ministry of General Education - Chongwe District	Statistician
Kennedy Mutale	SD	Government Officer
Zamime Mbewe	DAO	District Commissioner Office
<b>Lusaka Province</b>		
Walubita Lulialia	Internal Audit - Lusaka Province	Senior Internal Audit
Darison Mapiza	PPU - Lusaka Province	Principal Planner
Billy Makombo	Provincial Administration	Procurement Officer
Constance M. Mushunda	PACU	Accountant
Amb. Anne Mtamboh	PPU - Lusaka Province	Chief Planner
Civil Society		
<b>Transparency International Zambia (TIZ)</b>		
Goodwell Lungu	TIZ	Executive Director
<b>Donors / Cooperating Partners</b>		
Srinivas Gurazada	World Bank	Team Leader - World Bank
Michael Jacobs	World Bank	International Consultant
Francis Zulu	World Bank	PFM Intern
Zivanemoyo Chinzara	World Bank	Economist
Chitundu Mwango	World Bank	Consultant
Ntazi Sinyangwe	World Bank	Consultant
Stephen Neu	KfW	Director
Mauri Starckman	Finland	
Emeline Dicker	DFID	Governance Team Leader
Anne Anamela	DFID	
Peter Rasmussen	AfDB	Country Economist
Megan Jane Gray	GIZ	Advisor
Betty Diane Rijnberg-Vargyas	European union	Economic Advisor

## Annex 3C: Sources of Information

Indicators	Source of Information
<b>Pillar One</b>	
PI-1 Aggregate expenditure outturn	(a) Yellow Book for 2013, 2014, and 2015 (b) Economic Report (2013, 2014, 2015) (c) Financial Report (2013, 2014, 2015)
PI-2 Expenditure composition outturn	(a) Yellow Book for 2013, 2014, and 2015 (b) Economic Report (2013, 2014, 2015) (c) Financial Report (2013, 2014, 2015)
PI-3 Revenue outturn	(a) Yellow Book for 2013, 2014, and 2015 (b) Economic Reports (2013, 2014, 2015) (c) Financial Report (2013, 2014, 2015)
<b>Pillar Two</b>	
PI-4 Budget classification	(a) Yellow Book (2013, 2014, 2015) (b) Chart of Accounts (c) Draft Budget
PI-5 Budget documentation	(a) Yellow Book (2013, 2014, 2015) (b) Chart of Accounts (c) Draft Budget
PI-6 Central government operations outside financial reports	(a) Yellow Book (2013, 2014, 2015) (b) Financial Reports (2013, 2014, 2015) (c) SAG Reports (Ministry of Health) (d) Income & Expenditure Reports (Ministry of General Education)
PI-7 Transfers to subnational governments	(a) Amended constitution (Article 162 and 163)
PI-8 Performance information for service delivery	(a) Yellow Book (2013, 2014, 2015) (b) Performance Audit Reports (c) Auditor-General's Reports (2013, 2014, 2015)
PI-9 Public access to fiscal information	(a) Yellow Book (2013, 2014, 2015) (b) Mid-Year Economic Reports (2013, 2014, 2015) (c) Financial Reports (2013, 2014, 2015) (d) Budget Law (e) Auditor-General's Reports (2013, 2014, 2015) (f) Citizens Budget (2013, 2014, 2015) (g) Green Paper/MTEF
<b>Pillar Three</b>	
PI-10 Fiscal risk reporting	(a) Amended constitution (b) List of loans guaranteed by the GRZ
PI-11 Public investment management	(a) Yellow Book (2013, 2014, 2015) (b) Scanned copy of the letter requesting MPSAs information on investment projects (c) Project Appraisal System Concept Note submitted to the World Bank (d) Project Implementation Manual
PI-12 Public asset management	(a) Financial Reports (2013, 2014, 2015) (b) Public Stores and Regulation (c) Finance Act

PI-13 Debt management	(a) Debt Management Strategy (2008–2011) (b) Loans and Guarantee Act (c) Economic Reports (2013, 2014, 2015) (d) Financial Reports (2013, 2014, 2015) (e) Budget Speeches (2013, 2014, 2015) (f) Green Paper/MTEF (g) Yellow Book (2013, 2014, 2015)
<b>Pillar Four</b>	
PI-14 Macroeconomic and fiscal forecasting	(a) Green Paper/MTEF
PI-15 Fiscal strategy	(a) Budget Speeches (2013, 2014, 2015) (b) Green Paper/MTEF (c) Yellow Book (2013, 2014, 2015) (d) Call Circular
PI-16 Medium-term perspective in expenditure budgeting	(a) Budget Speeches (2013, 2014, 2015) (b) Green Paper/MTEF (c) Yellow Book (2013, 2014, 2015) (d) Call Circular
PI-17 Budget preparation process	(a) Budget Speeches (2013, 2014, 2015) (b) Green Paper/MTEF (c) Yellow Book (2013, 2014, 2015) (d) Call Circular (e) Planning and Budgeting Bill
PI-18 Legislative scrutiny of budgets	(a) Green Paper/MTEF (b) Expanded Estimate Committee Reports (2013, 2014, 2015) (c) SOs (d) Constitution of Zambia
<b>Pillar Five</b>	
PI-19 Revenue administration	(a) TADAT (b) Tax Appeal Tribunal Act (Act No. 1 of 2015)
PI-20 Accounting for revenues	(a) Tax Revenue Reconciliations Reports (b) ZRA Annual Reports
PI-21 Predictability of in-year resource allocation	(a) Cash Flow Forecast Reports (2013, 2014, 2015) (b) Quarterly Funding Profiles (2013, 2014, 2015) (c) Supplementary Estimates (2013, 2014, 2015) (d) Supplementary Appropriation Act No. 9 of 2015 (e) IFMIS
PI-22 Expenditure arrears	(a) Financial Reports (2013, 2014, 2015) (b) Reports on Verification of Domestic Arrears 2012, 2013, 2014
PI-23 Payroll controls	(a) PMEC (b) Implementation Plan of PMEC (2013, 2014, 2015) (c) PMEC Annual Reports (2013, 2014, 2015) (d) Audit Reports on PMEC (2013, 2014, 2015)
PI-24 Procurement management	(a) The PPA No. 12 of 2008 (b) PPR 2011 (c) Procurement Committee Minutes (d) MPSAs Procurement Plans

PI-25 Internal controls on non-salary expenditure	(a) Financial Regulations (b) Public Finance Act (c) Internal Audit Reports - Audit Committee Reports (d) External Audit Reports
PI-26 Internal audit	(a) Internal Audit Manual (b) Consolidated Work Plans for Internal Audit Department (2013, 2014, 2015) (c) Internal Audit Reports (2013, 2014, 2015) (d) Establishment for Internal Audit Department
<b>Pillar Six</b>	
PI-27 Financial data integrity	(a) Reconciliation Reports
PI-28 In-year budget reports	(a) Budget Execution Reports (2013, 2014, 2015)
PI-29 Annual financial reports	(a) Financial Reports (2013, 2014, 2015) (b) Auditor-General Reports (2013, 2014, 2015)
<b>Pillar Seven</b>	
PI-30 External audit	(a) Auditor-General Reports (2013, 2014, 2015) (b) Constitution of Zambia (c) State Audit Commission Act (d) Public Audit Acts of 1980 and 2016
PI-31 Legislative scrutiny of audit reports	(a) PAC Reports (2013, 2014, 2015) (b) Treasury Minutes

## Annex 4. Supplementary Annex

**Table A4.10: Calculation of Aggregate Expenditure Variance**

Fiscal Year	Original Approved Budget (ZMW)	Aggregate Expenditure Outturn (ZMW)	Deviation	Absolute deviation	Percent	Expenditure Variance from a percent
2015	44,815,019.00	51,684,783.00	6,869,764	6,869,764	115	15%
2014	41,049,407.00	38,541,634.00	-2,507,773	2,507,773	94	- 6%
2013	31,669,348.70	33,790,129.10	2,120,780.40	2,120,780.40	107	7%

**Table A4.2: 2012 and 2016 Assessment Comparison - Based on 2011 Framework**

Indicators/Dimension	2012 Score Using 2011 PEFA Framework (Previous Assessment)	2016 Score Using 2011 PEFA Framework (Current Assessment)	Explanation of Score in the Current Assessment	Explanation of Change

### A. PFM-OUTTURNS: Credibility of the Budget

PI-1 Aggregate expenditure outturn compared to original approved budget	D	B	Performance has improved because of a significant reduction in deviations between aggregate budgeted and actual expenditures. The 2012 assessment had deviations of 10.7%, 18.6%, and 32.5% for the 3 years 2009, 2010, and 2011, respectively. The 2016 assessment has deviations of 5%, 7.4%, and 0.8% in 2015, 2014, and 2013, respectively.	Reduction in deviations between aggregate budgeted and actual expenditures	
PI-2 Composition of expenditure outturn compared to original approved budget	D+	C+	The improvement is due to an improvement in the extent of the variance in expenditure composition during the last 3 years, excluding contingency items	Improvement is because of an improvement in the extent of the variance in expenditure composition	
(i) Extent of the variance in expenditure composition during the last 3 years, excluding contingency items.	D	C	Expenditure composition excluding contingency expenditure exceeded 15% in 1 (2013) of the 3 years. The result was mainly on account of expenditures on the FISP, fuel, PEs, and the FRA.	Higher variations in expenditure composition	



(ii) The average amount of expenditure actually charged to the contingency vote over the last 3 years.	A	A	The actual expenditure from the contingency vote has been 100 percent of the provision. The size of the contingency vote has been small; between 0.1% and 0.3% in the three years	No change	
PI-3 Aggregate revenue outturn compared to original approved budget revenue outturn	C	B	Revenue outturn compared to original approved budget has improved. Actual domestic revenue was between 94% and 112% of budgeted domestic revenue in at least 2 of the last 3 years	Improvements in revenue outturn with lesser variations	
(i) Actual domestic revenue collection compared to domestic revenue estimates in the original approved budget.	C	B	Actual domestic revenue was between 94% and 112% of budgeted domestic revenue in at least 2 of the last 3 years		
PI-4 Stock and monitoring of expenditure payment arrears	C+	D+	The poor performance is because of stock of arrears in the period under review after taking into account the omitted arrears.	Increased stock of arrears	

(i) The stock of expenditure payment arrears (as a percentage of the actual total expenditure for the corresponding fiscal year) and any recent change in the stock.	C	D	The stock of expenditure payment arrears as a percentage of actual total expenditure in assessment period was more than 10% compared to the 4.3% in 2011 used in the previous assessment.	Increase in the stock of expenditure payment arrears as a percent of actual total expenditure.	
(ii) Availability of data for monitoring of the stock of expenditure payment arrears.	A	A	No change in performance	No change	
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency					
PI-5 Classification of the budget	B	B	Fully uses the GFS/COFOG standards or classification that can produce documentation comparable with those standards. (Refer to Chart of Accounts, Draft Budget/Yellow Book)	No change	
(i) The classification system used to formulate, execute, and inform about the central government budget.	B	B	Same as in PI-5	No change	

PI-6 Comprehensive-ness of information included in budget documentation	C	B	Performance has improved. Seven out of the nine benchmarks are now met, versus four in 2012. The 7th benchmark is not met, as only revised revenue outturns are shown and not revised expenditure outturns. The budget is prepared earlier in the year, at which time revised estimates are not available.	Three more benchmarks have been met from four in 2012.	
(i) Number of the nine information benchmarks listed below that are included in the budget documentation most recently issued by the central government	C	B	Performance has improved. Seven out of the nine benchmarks are now met, versus four in 2012. The 7th benchmark is not met, as only revised revenue outturns are shown and not revised expenditure outturns. The budget is prepared earlier in the year, at which time revised estimates are not available.	Three more benchmarks have been met from four in 2012.	
PI-7 Extent of unreported government operations	NR	B+	Data capture has significantly improved since the last assessment. However, there is still absence of information on parastatals	Data capture improvement	

(i) Level of extra-budgetary expenditure (other than donor-funded projects), which is unreported, that is not included in fiscal reports.	NR	B	The level of unreported extra-budgetary expenditure (other than donor-funded projects) is insignificant (below 1% of total expenditure)		
(ii) Income and expenditure information on donor-funded projects that is included in fiscal reports.	D	A	Complete income or expenditure information for all donor-funded projects is included in fiscal reports.		
PI-8 Transparency of inter-governmental fiscal relations	C	B	The Local Government Equalization Fund replaced some less effective rules-based grants, and the Call Circular is earlier; but there is still no consolidation of fiscal data.	Local Government Equalization Fund replaced some less rules-based grants	
(i) Transparent and rules-based systems in the horizontal allocation among lower level governments of unconditional and conditional transfers from higher level government (both budgeted and actual allocations).	B	A	The formula used for horizontal distribution of the resources allocated to the various councils takes into account population weighted by poverty.	Formula used for horizontal distribution of the resources allocated to the various councils takes into account population weighted by poverty.	

(ii) Timeliness of reliable information to lower level governments on their allocations from higher level government for the coming year.	C	A	The Call Circular is issued by the MLGH at least 6 weeks before the due date and the implementation calendar year is equivalent to that of the central government.	Improvements in the information and time given to the MLGH on their allocations		
(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.	D	D	Work to harmonize systems has commenced with training of subnational of standard budgeting practices using GFS/COFOG.	No change		
PI-9 Oversight of aggregate fiscal risk from other public sector entities	C	D+	Decreased performance because of significant fiscal risk without consolidated reports coupled with the absence of audited financial statements for most government corporations.	Decreased performance because of significant fiscal risk without consolidated reports coupled with the absence of audited financial statements for most government corporations.		

(i) Extent of government monitoring of AGAs and PEs.	C	D	Records available indicate that about 50% of AGAs do not have audited financial statements. In the absence of audited financial statements, the financial performance and associated fiscal risks of government public corporations cannot be assessed.	Reduction in the number of AGAs with audited financial statements		
(ii) Extent of government monitoring of subnational (urban and rural local bodies) government's fiscal position.	C	C	Some SNs are monitored and audited but others have not been audited for many years.	No change		
PI-10 Public access to key fiscal information	B	B	No change	No change		
(i) Number of the six elements listed with public access.	B	B	No change	No change		
C. BUDGET CYCLE						
C(i) Policy - Based Budgeting						
PI-11 Orderliness and participation in the annual budget process	B+	B+	This has remained basically the same mainly because of the delay in the enactment of the Planning and Budgeting Bill.	No change		

(i) Existence of and adherence to a fixed budget calendar.	C	C	The budget calendar exists but substantial delays may often be experienced in its implementation.	No change		
(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions.	A	A	The budget guidelines on the preparation of budget submissions are clear and political leaders are involved through Cabinet.			
The Call Circular is comprehensive and covering total budget expenditures for a full fiscal year. It is distributed to all MPSAs immediately after Cabinet approval.	No change					
(iii) Timely budget approval by the legislature.	A	A	Legislature has, during the last 3 years, approved the budget before the start of the fiscal year (January to December).	No change		

PI-12 Multi-year perspective in fiscal planning, expenditure policy, and budgeting	B	C+	The reduction in the grade is mainly on account of the high infrastructure projects embarked on by the government during the review period while the revision of ministry/sector plans has not undergone the similar revision to align with the new government plans.	The reduction in performance was attributed to the high infrastructure projects embarked on by the government and which were outside ministerial or sectoral plans.		
(i) Preparation of multiyear fiscal forecasts and functional allocations.	C	C	The score has basically remained the same because of the non-improvement in the links between multiyear estimates and subsequent setting of annual budget ceilings to make them clear and differences explained.	No change		
(ii) Scope and frequency of DSA.	B	B	The DSA has been conducted at least twice in the period under review	No change		
(iii) Existence of sector strategies with multiyear costing of recurrent and investment expenditure.	A	B	The sector strategies or local development plans that exist and are not fully costed and rarely consistent with fiscal forecast.	Not fully costed and rarely consistent with fiscal forecast sector strategies.		



(iv) Linkages between investment budgets and forward expenditure estimates.	B	C	Cost implications of investment expenditures rarely fully covered or included in forward budget estimates.	Cost implications of investment expenditures rarely fully covered.		
C(ii) Predictability and Control in Budget Execution						
PI-13 Transparency of Taxpayer Obligations and Liabilities	B	A	Digitalization of most taxpayer services has significantly enhanced the transparency of taxpayer obligations and liabilities.	Enhanced the transparency of taxpayer obligations and liabilities because of digitalization of most taxpayer services.		
(i) Clarity and comprehensiveness of tax liabilities	B	B	The tax law and regulations have limited discretionary powers, are comprehensive and clearly spelled out in separate acts, as noted in the text and the 2008 and 2012 assessments. However, frequent amendments were still made to the Income Tax Act with respect to presumptive tax and the mining tax regime.	No change		

(ii) Taxpayers' access to information on tax liabilities and administrative procedures	B	A	Taxpayers have easy access to comprehensive, user friendly, and up-to-date information on tax liabilities and administrative procedures for all major taxes through various channels such as brochures, leaflets, billboards, website, call center, public electronic and print media, and active taxpayer education programs.	Taxpayers have now easy access to comprehensive, user friendly, and up-to-date information tax liabilities and administrative procedures for all major taxes through various channels.		
(iii) Existence and functioning of a tax appeals mechanism.	B	A	A clear and transparent tax appeal mechanism exists and functions through the internal ZRA appeals system and the external (independent) RAT. In 2015, the Tribunal Act was amended to allow the Tax Tribunal to sit in any place in the country as the Chairperson may determine.	A clear and transparent tax appeal mechanism exists. Further, in 2015 the Tribunal Act was amended to allow the Tax Tribunal to sit in any place in the country as the Chairperson may determine.		
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	B	B	Score is unchanged.	No change		
(i) Controls in the taxpayer registration system.	C	C	No change	No change		

(ii) Effectiveness of penalties for non-compliance with registration and tax declaration	B	B	Failure by a taxpayer to pay on time results in imposition of interest and penalties and, for some taxpayers, legal debt recovery action. Penalties are applied where the taxpayer does not meet the due dates.	No change		
(iii) Planning and monitoring of tax audit programs	A	A	The ZRA has in place a comprehensive structured process to identify, assess, prioritize, and mitigate institutional risks	No change		
PI-15 Effectiveness in collection of tax payments	NR	D+	Improvements because of revenue reconciliations	The performance improvement is because of improvements to revenue reconciliations.		
(i) Collection ratio for gross tax arrears.	NR	D	A DRU became operational on April 1, 2015 and has 10 staff reporting to the Assistant Director Debt Recovery. The average collections ratio was less than 60%.			
Tax revenue reconciliations are done on a daily basis.	Operationalization of a Debt Recovery Unit.					

(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	B	B	No change	No change		
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury.	B	A	Tax revenue reconciliations are done on a daily basis	Improvement in revenue reconciliations		
PI-16 Predictability in the availability of funds for commitment of expenditures	C+	C+	The introduction of TSA has positively affected the score. However, because during the period under review the TSA had not be fully rolled out the score for respective dimensions aggregated the score to C+.	No change		

(i) Extent to which cash flows are forecast and monitored.	B	B	Cash flow forecasts are prepared by Treasury annually in consultation with budgetary units which are Zambia Revenue Authority and Ministries, Provinces and other Government institutions. These institutions then submit on monthly basis revenue returns indicating actual revenue collected and reasons for variances against the estimates. Cash flow forecast reports (game plan reports) are prepared on a quarterly basis by the MoF and are available. Reviews are carried on a monthly basis.	No change		
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	C	C	Information on funding profiles exists for all MPSAs on a quarterly basis. Budgetary units are able to plan and commit expenditures in accordance with the Appropriation Act.	No change		

(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MP-SAs.	C	C	Adjustments to the budget are only effected through a supplementary act passed by the legislature. These procedures are adhered to by the Treasury. In 2015, a total supplementary of K13,491,029,021 was provided for and this adjustment to the budget was carried out once.	No change		
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.	No change		

(i) Quality of debt data recording and reporting	C	C	Domestic and external debt records are complete, updated, and, for external debt, reconciled semiannually. 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. The IDM does not currently produce a debt statistics bulletin on debt stocks and debt service.	No change		
(ii) Extent of consolidation of the government's cash balances	C	C	The reconciliation of cash balances for GRZ accounts held at the BoZ (which accounts for around 85% of total balances) is done on a daily basis for MPSAs on TSA, while those held with commercial banks are done monthly. However, the system used does not allow consolidation of all bank balances.	No change		

(iii) Systems for contracting loans and issuance of guarantees.	B	B	The Loans and Guarantees Authorization Act gives authority to contract loans and guarantees to the MoF. Loans and guarantees are authorized by the 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.	No change		
PI-18 Effectiveness of payroll controls	C+	C+	Improved update offset by reduced payroll audit.	No change		
(i) Degree of integration and reconciliation between personnel records and payroll data.	A	A	No change	No change		
(ii) Timeliness of changes to personnel records and the payroll	C	B	There has been an improvement as a result of streamlining procedures through decentralization of payroll management to the provincial headquarters.	Improved streamlining procedures through decentralization of payroll management has contributed to the increase.		
(iii) Internal controls of changes to personnel records and the payroll	A	A	No change	No change		



(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	A	C	Internal Auditors in MP-SAs check the payroll every month.			
Each Ministry is having an internal audit establishment which is under the overall guidance of Controller of Internal Audit in Ministry of Finance. Internal auditors check the payroll on a monthly basis, as a regularity audit. However, annual audits are not regularly done.	Resource limitations reduced payroll audit					
PI-19. Competition, value for money, and controls in procurement	D+	C	The performance has improved marginally because of improvement in data availability of contracts awarded and public access to procurement information.	Improvement in data availability of contracts awarded and public access to procurement information.		
(i) Transparency, comprehensiveness, and competition in the legal and regulatory framework.	B	B	No change	No change		

(ii) Use of competitive procurement methods.	D	C	In the 2012 assessment, there were no data available. Data are now available for at least 60% of the value of contracts awarded.	Improvement in the data available of the value of contracts awarded		
(iii) Public access to complete, reliable, and timely procurement information.	D	C	In 2012, there was no institutionalized government system to generate substantial and reliable coverage of key procurement information. However, in 2016 there was improvement because of procurement reform, at least 50% of government institutions provide key procurement information.	Improvement because of procurement reform, at least 50% of government institutions provide key procurement information.		
(iv) Existence of an independent administrative procurement complaints system.	D	D	No change	No change		
PI-20. Effectiveness of internal controls for non-salary expenditure	C+	C+	There is no change as would have been the case given the increased number of institutions that are currently on the IFMIS.	No change		
(i) Effectiveness of expenditure commitment controls.	C	C	There is no change as can be seen from the increased level of arrears.	No change		

(ii) Comprehensive-ness, relevance and understanding of other internal control rules/procedures.	B	B	Internal control controls and procedures are clearly understood by most institutions.	No change		
(iii) Degree of compliance with rules for processing and recording transactions.	C	C	The Internal Audit and External Audit Reports show increased degree of non-compliance with rules for processing and recording transactions.	No change		
PI-21. Effectiveness of internal audit	C+	C+	No change. Adoption of international standards constrained by resources.	No change		
(i) Coverage and quality of the internal audit function.	B	C	Coverage is of significant concern as internal audit does not cover most central government entities at district level. Instead, the quality of the internal audit function does attempt to meet the professional standards as evidenced from the internal audit manual which is developed based on IIAS.	Coverage is of significant concern as internal audit does not cover most central government entities at district level.		
(ii) Frequency and distribution of reports.	B	B	No change	No change		

(iii) Extent of management response to internal audit findings.	C	C	No change	No change		
C(iii) Accounting, Recording, and Reporting						
PI-22. Timeliness and regularity of accounts reconciliation	B	C	Reconciliations have declined.	Reconciliations have declined.		
(i) Regularity of bank reconciliations	A	C	Only TSA accounts are reconciled regularly. Most of the other accounts maintained by MPSAs are not done on time.	Decline in the number of accounts reconciled regularly.		
(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	C	C	Majority of suspense accounts were not reconciled monthly but left up to quarter and close of the year reconciliations when annual financial statements are being prepared. This was the case in more than 75% of the MPSAs. Suspense accounts mainly takes care of miss posted and miss coded transactions when making payments	No change		

PI-23. Availability of information on resources received by service delivery units	B	B	Data collection on resources in cash or kind is available and surveys have been undertaken within the last 3 years to report on these resources in the Ministry of Health and Education.	No change		
(i) Collection and processing of information to demonstrate the resources that were actually received by the most common front line service delivery units.	B	B	Data collection on resources in cash or kind is available and surveys have been undertaken within the last 3 years to report on these resources in the Ministry of Health and Education	No change		
PI-24. Quality and timeliness of in-year budget reports	C	D+	Performance declined because of delay of issuance of reports by more than 8 weeks	Delay of issuance of reports by more than 8 weeks		

(i) Scope of reports with regard to coverage and compatibility with budget estimates	C	C	The reports cover relevant and compatible data with regard to the budget as it is extracted from the Appropriation Act. Releases are uploaded in the system giving a chance of error just like the expenditure side. However, the data do not give in-depth analysis of departmental performance at Head summary level.	No change		
(ii) Timeliness of the issue of reports	C	D	Official in-year budget execution reports are prepared quarterly; however, in the review period as compared to the previous assessment, they were issued late between 2–4 months not within 8 weeks after end of quarter	Delay of issuance of reports by more than 8 weeks		
(iii) Quality of information	C	C	The quality of information can still be depended upon to some extent because it represents the status core as it were at head summary level of performance	No change		

PI-25. Quality and timeliness of annual financial statements	C+	B+	There has been an improvement in the timeliness of submission of annual financial statements for audit.	Improvement in the timeliness of submission of annual financial statements for audit.		
(i) Completeness of the financial statements	C	A	Statements are composed of all budgetary in-flows and out-flows in accordance with approved budget.	Improvement in completeness of the financial statements in accordance with approved budget.		
(ii) Timeliness of submission of the financial statements	B	A	The period in which all statements are submitted for audit has reduced from about 6 months to 3 months.	Reduction of the period statements are submitted for audit from about 6 months to 3 months		
(iii) Accounting standards used	B	B	The accounting standards used in the preparation of annual reports have remained the same.	No change		
C(iv) External Scrutiny and Audit						
PI-26. Scope, nature, and follow-up of external audit	B	B+	The score has changed because of improvements due to implementations of international audit standards	Implementations of international audit standards contributed to the improvement		
(i) Scope/nature of audit performed (including adherence to auditing standards).	B	A	The OAG has adopted latest audit manuals based on AFROSAI-E which incorporates ISSAIs	Improvement because of the adoption of latest audit manuals by OAG based on AFROSAI-E which incorporates ISSAIs		

(ii) Timeliness of submission of audit reports to legislature.	B	B	No change	No change		
(iii) Evidence of follow up on audit recommendations.	B	B	No change	No change		
PI-27. Legislative scrutiny of the annual budget law	C+	B+	Change in performance because of improvements in rules for approving amendments	Improvements in rules for approving amendments		
(i) Scope of the legislature's scrutiny.	B	B	No change	No change		
(ii) Extent to which the legislature's procedures are well established and respected.	B	B	No change	No change		
(iii) Adequacy of time for the legislature to provide a response to budget proposals on both the detailed estimates and, where applicable, for proposals on macrofiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).	A	A	No change	No change		



(iv) Rules for in-year amendments to the budget without ex ante approval by the legislature.	C	B	The rules for in-year amendments without the approval of the legislature are provided for in the general notes in the Yellow Book. These include the percent of the approved estimates that can be varied by the Controlling Officers			
PI-28. Legislative scrutiny of external audit reports	C+	C+	There was no change	No change		
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last 3 years).	C	C	No change in the score in spite of a slight improvement in the number of months for completing scrutiny of reports from 11 down to 8 months.	No change		
(ii) Extent of hearings on key findings undertaken by the legislature.	A	A	No change	No change		
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	B	B	No change	No change		
<b>D. DONOR PRACTICES</b>						
D-1. Predictability of direct budget support	D+	NA	NA	NA		

(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least 6 weeks before the government submitting its budget proposals to the legislature (or equivalent approving body).	B	NA	NA	NA		
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	D	NA	NA	NA		
D-2. Financial information provided by donors for budgeting and reporting on project and program aid	D+	NA	NA	NA		
(i) Completeness and timeliness of budget estimates by donors for project support.	B	NA	NA	NA		
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	D	NA	NA	NA		

D-3. Proportion of aid that is managed by the use of national procedures	C	NA	NA	NA		
(i) Overall proportion of aid funds to central government that are managed through national procedures.	C	NA	NA	NA		

**Table A4.3: 2008, 2012, and 2016 Dimension Results by 2011 PI Framework**

	<b>Performance Indicator</b>	<b>Score 2008 PEFA</b>	<b>Score 2012 PEFA</b>	<b>Score 2016 PEFA</b>
<b>A: BUDGET CREDIBILITY</b>				
PI-1	Aggregate expenditure outturn compared to original approved budget	B	D	B
PI-2	Composition of expenditure outturn compared to original approved budget	D	D+ (i) D (ii) A	C+ (i) C (ii) A
PI-3	Aggregate revenue outturn compared to original approved budget	A	C	B
PI-4	Stock and monitoring of expenditure payment arrears	B+ (i) B (ii) A	C+ (i) C (ii) A	D+ (i) D (ii) A
<b>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>				
PI-5	Classification of the budget	A	B	B
PI-6	Comprehensiveness of information included in budget documentation	B	C	B
PI-7	Extent of unreported government operations	B+ (i)A (ii)B	NR (i) NR (ii) D	B+ (i) B (ii) A
PI-8	Transparency of intergovernmental Fiscal Relations	D+ (i) B (ii) D (iii) D	C (i) B (ii) C (iii) D	B (i) A (ii) A (iii) D

PI-9	Oversight of aggregate fiscal risk from other public sector entities	C (i) C (ii) C	C (i) C (ii) C	D+ (i) D (ii) C
PI-10	Public access to key fiscal information	A	B	B
<b>C. BUDGET CYCLE</b>				
<b>C(i) Policy-Based Budgeting</b>				
PI-11	Orderliness and participation in the annual budget process	C+ (i) C (ii) A (iii) D	B+ (i) C (ii) A (iii) A	B+ (i) C (ii) A (iii) A
PI-12	Multiyear 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	C+ (i) C (ii) B (iii) B (iv) C
<b>C(ii) Predictability &amp; Control in Budget Execution</b>				
<b>Revenue Administration</b>				
PI-13	Transparency of taxpayer obligations and liabilities	B (i) B (ii) B (iii) B	B (i) B (ii) B (iii) B	A (i) B (ii) A (iii) A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B (i) C (ii) B (iii) B	B (i) C (ii) B (iii) A	B (i) C (ii) B (iii) A
PI-15	Effectiveness in collection of tax payments	C+ (i) NR (ii) B (iii) B	NR (i) NR (ii) B (iii) B	D+ (i) D (ii) B (iii) A
<b>Budget Execution &amp; Cash/Debt Management</b>				
PI-16	Predictability in the availability of funds for commitment of expenditures	D+ (i) B (ii) D (iii) C	C+ (i) B (ii) C (iii) C	C+ (i) B (ii) C (iii) C
PI-17	Recording and management of cash balances, debt, and guarantees	C+ (i) C (ii) C (iii) B	C+ (i) C (ii) C (iii) B	C+ (i) C (ii) C (iii) B
<b>Internal Controls</b>				

PI-18	Effectiveness of payroll controls	D+ (i) A (ii) D (iii) A (iv) B	C+ (i) A (ii) C (iii) A (iv) A	C+ (i) A (ii) B (iii) A (iv) C
PI-19	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	C (i) B (ii) C (iii) C (iv) D
PI-20	Effectiveness of internal controls for non-salary expenditures	C+ (i) C (ii) B (iii) C	C+ (i) C (ii) B (iii) C	C+ (i) C (ii) B (iii) C
PI-21	Effectiveness of internal audit	C+ (i) B (ii) B (iii) C	C+ (i) B (ii) B (iii) C	C+ (i) C (ii) B (iii) C
	<b>C(iii) Accounting, Recording and Reporting</b>			
PI-22	Timeliness and regularity of accounts reconciliation	B (i) A (ii) C	B (i) A (ii) C	C (i) C (ii) C
PI-23	Availability of information on resources received by service delivery units	B	B	B
PI-24	Quality and timeliness of in-year budget reports	C (i) C (ii) C (iii) C	C (i) C (ii) C (iii) C	D+ (i) C (ii) D (iii) C
PI-25	Quality and timeliness of annual financial statements	C+ (i) C (ii) B (iii) C	C+ (i) C (ii) B (iii) B	B+ (i) A (ii) A (iii) B
	<b>C(iv) External Scrutiny and Audit</b>			
PI-26	Scope, nature, and follow-up of external audit	B (i) B (ii) B (iii) B	B (i) B (ii) B (iii) B	B+ (i) A (ii) B (iii) B

PI-27	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	B+ (i) B (ii) B (iii) A (iv) B
PI-28	Legislative scrutiny of external audit reports	C+ (i) C (ii) A (iii) B	C+ (i) C (ii) A (iii) B	C+ (i) C (ii) A (iii) B
<b>D. DONOR PRACTICES</b>				
D-1	Predictability of direct budget support	D+ (i) C (ii) D	D+ (i) B (ii) D	NA
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D+ (i) B (ii) D	D+ (i) B (ii) D	NA
D-3	Proportion of aid that is managed by use of national procedures	C	C	NA

## Annex 5. PEFA Assessment Management Organization

Oversight Team – PFM Committee chaired by Department of Budget and Management:

### Joint Government Donor Committee:

- Chair: Fredson Yamba, ST
- Co-Chair: Frank Hofmann, HOC, German Embassy

### Members:

- Pamela C. Kabamba, Permanent Secretary, BEA, MoF
- Berlin Msiska, Commissioner General, ZRA
- Dick C. Sichembe, Accountant-General, MoF
- Mauri Starckman, HOC, Finnish Embassy
- Ina Ruthenberg, Country Manager, World Bank
- Stephan Neu, Director, kfw, Germany
- Bruce Lawson McDonell Deputy Head, DFID
- Commissioner General, ZRA

### Assessment Managers:

- Mumba Chanda, Deputy Accountant-General of the MoF
- Srinivas Guruzada, Senior Financial Management Specialist, World Bank

### Assessment Team Members:

- Medson Moyo, Budget Analyst, Budget Office
- Kapembwa N. Sikombe, Economist - Revenue, Budget Office
- Chuma, Principal Auditor, OAG

- Loveday Hamutunda, Senior Accountant, Office of the Accountant General
- Alice N. Sievu, Chief Accountant, PFMRP/Office of the Accountant General
- Clara Mazimba, Principal Accountant, PFMRP/Office of the Accountant General
- Mpongwe N. Shawa, M&E Specialist, PFMRP
- Hector Sampa, Principal Accountant, Office of the Accountant General
- Francis Mwanza, Internal Auditor, Controller of Internal Audit
- Hope C. Lwenje, Internal Auditor, Controller of Internal Audit
- Ethel N. Kayonde, Manager - Compliance Monitoring, ZPPA
- Ngoza Munthali, Office of the Accountant General
- Thomas Phiri, Chief Accountant - LG, Office of the Accountant General
- Ireen Musonda, Office of the Accountant General
- Tilson Musowoya, Office of the Accountant General
- Kanfunti Chilambi, Internal Auditor, Controller of Internal Audit
- Chitundu Mwango, Consultant
- Sinyangwe Ntazi, Consultant
- Michael Jacobs, Consultant

### **Cross-Sectoral Support Team for Assessment Review:**

- Stephan Neu, KfW
- Mauri Starkman, Finland, Emeline Dicker, DFID
- Sophie Autie, EU, Doris Nueckel, GIZ
- Resident Representative, IMF
- Khuram Farooq, World Bank (IFMIS)
- Gregory Smith, World Bank (Country Economics)
- Ziv Chinzara, World Bank (Country Economics)
- Wedex Ilunga, World Bank (Procurement)

### **Review of Concept Note:**

- Review conducted during June 8 to June 17, 2016
- Final Concept Note dated June 17, 2016

### **Invited reviewers:**

#### **World Bank:**

- Simon B. Chenjerani Chirwa, Senior Procurement Specialist
- Manoj Jain, Lead Financial Management Specialist
- Saeeda Sabah Rashid, Senior Public Sector Specialist
- Tuan Minh Le, Senior Economist
- Yoko Kagawa, Operations Support Team

#### **External:**

- MoF
- IMF
- DFID
- PEFA Secretariat

### **Review of the Assessment Report**

- Draft report referred for peer review on February 27, 2017
- Revised draft report referred again to peer reviewers on May 25, 2017

Invited reviewers:

World Bank:

- Simon B. Chenjerani Chirwa, Senior Procurement Specialist
- Manoj Jain, Lead Financial Management Specialist
- Saeeda Sabah Rashid, Senior Public Sector Specialist
- Tuan Minh Le, Senior Economist

External:

- GIZ
- European Union
- IMF
- DFID
- PEFA Secretariat

World Bank decision review: April 24, 2017

Endorsement by Joint Government Donor Committee meeting: May 5, 2017

Issue of PEFA Check: November 6, 2017

## Annex 6. Data Tables

### Annex 6.1 Calculation Sheet for PFM Performance Indicators PI-1, PI-2.1 and PI-2.3

Data for year: 2013						
	Currency, ZMK					
Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Cabinet Office	126,883,656.00	206,226,200.00	125,844,146.3	80,382,053.7	80,382,053.7	0.63874289
PSMD	680,791,631.00	653,925,134.00	675,214,163.5	-21,289,029.5	21,289,029.5	0.0315293
Foreign Affairs	330,547,742.00	417,924,262.00	327,839,689.8	90,084,572.2	90,084,572.2	0.27478239
National Assembly	323,027,025.00	329,505,294.00	320,380,587.1	9,124,706.9	9,124,706.9	0.02848084
MWSC	539,808,007.00	401,875,422.00	535,385,564.8	-133,510,142.8	133,510,142.8	0.24937195
Agric	1,748,707,004.00	2,058,053,869.00	1,734,380,511.0	323,673,358.0	323,673,358.0	0.18662188
Tourism	95,005,126.00	201,549,326.00	94,226,785.0	107,322,541.0	107,322,541.0	1.13898125
Lands	115,602,472.00	76,290,404.00	114,655,384.8	-38,364,980.8	38,364,980.8	0.33461124
ZP	890,051,168.00	907,968,100.00	882,759,316.5	25,208,783.5	25,208,783.5	0.0285568
MHA	336,996,874.00	299,209,343.00	334,235,986.5	-35,026,643.5	35,026,643.5	0.10479615
Judiciary	272,218,432.00	240,653,240.00	269,988,249.7	-29,335,009.7	29,335,009.7	0.10865291
Head 21	6,629,527,624.00	7,111,738,117.00	6,575,214,419.5	536,523,697.5	536,523,697.5	0.0815979
MLGH	749,294,716.00	442,451,195.00	743,156,028.7	-300,704,833.7	300,704,833.7	0.40463217
Justice	354,778,527.00	253,004,125.00	351,871,961.1	-98,867,836.1	98,867,836.1	0.28097674



MoF	1,328,654,782.00	3,487,022,867.00	1,317,769,617.5	2,169,253,249.5	2,169,253,249.5	1.64615516
Labour	36,826,742.00	25,111,968.00	36,525,034.5	-11,413,066.5	11,413,066.5	0.31247244
Community	1,546,663,548.00	565,427,545.00	1,533,992,320.4	-968,564,775.4	968,564,775.4	0.63140132
Health	2,053,383,268.00	1,829,606,950.00	2,036,560,677.9	-206,953,727.9	206,953,727.9	0.10161923
Defence	5,618,390,903.00	5,208,941,512.00	5,572,361,558.0	-363,420,046.0	363,420,046.0	0.06521832
Education	2,058,193,052.00	2,165,312,320.00	2,041,331,057.2	123,981,262.8	123,981,262.8	0.0607355
21 (= sum of rest)	6,326,334,422.00	5,016,401,031.00	6,274,505,164.3	-1,258,104,133.3	1,258,104,133.3	0.20051049
Allocated expenditure	32,161,686,721.00	31,898,198,224.00	31,898,198,224.0	0.0	6,931,108,450.2	
Interests						
Contingency	44,588,212.00	44,588,212.00				
<b>Total expenditure</b>	<b>32,206,274,933.00</b>	<b>31,942,786,436.00</b>				
<b>Overall (PI-1) variance</b>						<b>99.2%</b>
<b>Composition (PI-2) variance</b>						<b>21.7%</b>
<b>contingency share of budget</b>						<b>0.14%</b>

Data for year: 2014						
	Currency, ZMK					
Administrative or Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Cabinet Office	144,314,411.00	306,230,255.00	133,635,241.5	172,595,013.5	172,595,013.5	129.2%
PSMD	802,174,260.00	654,643,467.00	742,813,903.6	-88,170,436.6	88,170,436.6	11.9%
Foreign Affairs	408,936,856.00	407,338,045.00	378,675,803.4	28,662,241.6	28,662,241.6	7.6%
National Assembly	547,080,239.00	492,346,543.00	506,596,668.8	-14,250,125.8	14,250,125.8	2.8%
MWSC	864,138,902.00	689,663,188.00	800,193,203.7	-110,530,015.7	110,530,015.7	13.8%
Agric	3,034,254,385.00	3,378,616,889.00	2,809,721,598.7	568,895,290.3	568,895,290.3	20.2%
MIBS and Tourism	89,142,879.00	50,995,965.00	82,546,365.8	-31,550,400.8	31,550,400.8	38.2%
Lands	324,008,996.00	122,431,125.00	300,032,547.9	-177,601,422.9	177,601,422.9	59.2%
ZP	1,168,926,568.00	1,147,850,122.00	1,082,426,787.2	65,423,334.8	65,423,334.8	6.0%
MHA	451,624,840.00	416,270,582.00	418,204,905.2	-1,934,323.2	1,934,323.2	0.5%
Judiciary	336,253,998.00	328,474,738.00	311,371,428.0	17,103,310.0	17,103,310.0	5.5%
Head 21	7,766,238,305.00	5,815,656,036.00	7,191,541,887.3	-1,375,885,851.3	1,375,885,851.3	19.1%
MLGH	883,124,488.00	626,437,987.00	817,773,869.1	-191,335,882.1	191,335,882.1	23.4%
Justice	254,164,825.00	210,892,006.00	235,356,798.7	-24,464,792.7	24,464,792.7	10.4%
MoF	1,815,000,508.00	2,615,032,809.00	1,680,691,689.6	934,341,119.4	934,341,119.4	55.6%
Labour	42,550,877.00	30,818,175.00	39,402,140.7	-8,583,965.7	8,583,965.7	21.8%
Community	1,890,332,561.00	1,323,006,700.00	1,750,449,221.3	-427,442,521.3	427,442,521.3	24.4%
Health	2,646,390,446.00	2,505,264,862.00	2,450,559,330.7	54,705,531.3	54,705,531.3	2.2%
Defence	2,726,686,470.00	2,704,769,402.00	2,524,913,502.8	179,855,899.2	179,855,899.2	7.1%

Education	8,599,147,755.00	8,060,676,530.00	7,962,816,597.5	97,859,932.5	97,859,932.5	1.2%
21 (= sum of rest)	7,839,641,565.00	7,591,821,421.00	7,259,513,355.4	332,308,065.6	332,308,065.6	4.6%
Allocated expenditure	42,634,134,134.00	39,479,236,847.00	39,479,236,847.0	0.0	4,903,499,476.4	
Interests						
Contingency	50,000,000.00	50,000,000.00				
<b>Total expenditure</b>	<b>42,684,134,134.00</b>	<b>39,529,236,847.00</b>		<b>42,682,033.00</b>		
<b>Overall (PI-1) variance</b>						<b>92.6%</b>
Composition (PI-2) variance						12.4%
Contingency share of budget						0.12%

Data for year : 2015						
	Currency, ZMK					
Administrative or Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Cabinet Office	151,186,444	289,130,848	158,769,529.9	130,361,318.1	130,361,318.1	0.82107265
PSMD	854,888,046	734,705,770	897,766,820.6	-163,061,050.6	163,061,050.6	0.18162962
Foreign Affairs	482,503,843	586,668,071	506,704,875.7	79,963,195.3	79,963,195.3	0.1578102
National Assembly	439,215,228	346,553,166	461,245,025.8	-114,691,859.8	114,691,859.8	0.24865712
MWSC	788,799,786	1,015,268,022	828,363,759.8	186,904,262.2	186,904,262.2	0.22563066
Agric	4,108,454,445	5,059,858,404	4,314,522,939.0	745,335,465.0	745,335,465.0	0.17275038
Tourism	217,709,947	187,873,309	228,629,664.3	-40,756,355.3	40,756,355.3	0.17826364
Lands	338,221,942	154,530,042	355,186,201.2	-200,656,159.2	200,656,159.2	0.5649323
ZP	1,275,343,121	1,213,936,447	1,339,310,737.0	-125,374,290.0	125,374,290.0	0.09361105
MHA	507,215,370	549,049,029	532,655,863.2	16,393,165.8	16,393,165.8	0.03077628
Judiciary	361,774,078	318,312,407	379,919,646.0	-61,607,239.0	61,607,239.0	0.1621586
Head 21	7,551,674,077	9,554,642,519	7,930,444,762.0	1,624,197,757.0	1,624,197,757.0	0.20480538
MLGH	925,418,966	730,728,933	971,835,372.8	-241,106,439.8	241,106,439.8	0.24809391
Justice	288,545,698	215,929,311	303,018,336.9	-87,089,025.9	87,089,025.9	0.28740513
MoF	1,695,194,773	1,957,323,387	1,780,220,964.4	177,102,422.6	177,102,422.6	0.09948339
Labour	47,928,218	28,786,203	50,332,162.3	-21,545,959.3	21,545,959.3	0.42807538
Community	2,028,157,674	1,829,538,393	2,129,884,346.0	-300,345,953.0	300,345,953.0	0.14101515
Health	2,758,080,222	2,601,337,961	2,896,417,751.5	-295,079,790.5	295,079,790.5	0.1018775
Defence	3,215,100,849	3,186,579,221	3,376,361,244.9	-189,782,023.9	189,782,023.9	0.05620904
Education	9,415,154,443.65	8,212,192,367.13	9,887,392,051.1	-1,675,199,684.0	1,675,199,684.0	0.16942786
21 (= sum of rest)	9,165,993,571.35	10,181,772,215.87	9,625,733,971.8	556,038,244.1	556,038,244.1	0.0577658
Allocated expenditure	46,616,560,742.00	48,954,716,026.00	48,954,716,026.00	0.0	7,032,591,660.1	
Interests						
Contingency	50,000,000.00	50,000,000.00				
<b>Total expenditure</b>	<b>46,666,560,742.00</b>	<b>49,004,716,026.00</b>				

<b>Overall (PI-1) variance</b>						<b>95.0%</b>
<b>Composition (PI-2) variance</b>						<b>14.4%</b>
<b>Contingency share of budget</b>						<b>0.11%</b>

## Annex 6.2

### Detailed Data for Calculation of Variance for PI-2 Dimension (ii) Expenditure composition outturn by economic type

#### FY2013

	K, millions					
<b>Economic Head</b>	<b>Budget</b>	<b>Actual</b>	<b>Adjusted Budget</b>	<b>Deviation</b>	<b>Absolute Deviation</b>	<b>%</b>
Compensation of employees	11,016	11,897	12,704	-807	807	6.4
Use of goods and services	4,756	4,443	5,485	-1,041	1,041	19.0
Consumption of fixed capital	9,140	7,868	10,541	-2,673	2,673	25.4
Interest	2,021	1,874	2,331	-457	457	19.6
Subsidies	500	2,733	577	2,156	2,156	373.9
Grants	2,739	2,739	3,159	-420	420	13.3
Social benefits	740	704	853	-149	149	17.5
Other expenses	759	1,532	875	657	657	75.1
<b>Total expenditure</b>	<b>31,669</b>	<b>33,790</b>	<b>36,524</b>	<b>-2,734</b>	<b>8,360</b>	
<b>Overall variance</b>						<b>93.7</b>
<b>Composition variance</b>						<b>22.9</b>

#### FY2014

	K, millions					
<b>Economic Head</b>	<b>Budget</b>	<b>Actual</b>	<b>Adjusted Budget</b>	<b>Deviation</b>	<b>Absolute Deviation</b>	<b>%</b>
Compensation of employees	15,497	15,750	17,873	-2,123	2,123	11.9
Use of goods and services	5,202	4,632	5,999	-1,368	1,368	22.8

Consumption of fixed capital	10,919	6,772	12,593	-5,821	5,821	46.2
Interest	3,040	3,711	3,506	205	205	5.9
Subsidies	500	1,763	577	1,186	1,186	205.7
Grants	3,486	3,204	4,020	-816	816	20.3
Social benefits	966	734	1,114	-380	380	34.1
Other expenses	1,439	1,975	1,659	316	316	19.0
<b>Total expenditure</b>	<b>41,049</b>	<b>38,542</b>	<b>47,342</b>	<b>-8,800</b>	<b>8,800</b>	<b>—</b>
<b>Overall variance</b>						<b>106.5</b>
<b>Composition variance</b>						<b>25.8</b>

### **FY2015**

	<b>K, millions</b>					
<b>Economic Head</b>	<b>Budget</b>	<b>Actual</b>	<b>Adjusted Budget</b>	<b>Deviation</b>	<b>Absolute Deviation</b>	<b>%</b>
Compensation of employees	16,549	16,091	19,086	-2,995	2,995	15.7
Use of goods and services	6,266	5,110	7,227	-2,117	2,117	29.3
Consumption of fixed capital	11,166	13,200	12,878	322	322	2.5
Interest	3,436	5,224	3,963	1,261	1,261	31.8
Subsidies	1,338	5,196	1,543	3,653	3,653	236.7
Grants	3,667	3,740	4,229	-489	489	11.6
Social benefits	1,000	827	1,153	-326	326	28.3
Other expenses	1,392	2,296	1,606	691	691	43.0
<b>Total expenditure</b>	<b>44,815</b>	<b>51,685</b>	<b>51,685</b>	<b>0</b>	<b>11,853</b>	<b>—</b>
<b>Overall variance</b>						<b>86.7</b>
<b>Composition variance</b>						<b>22.9</b>

## Annex 6.3

### Calculation Sheet for Revenue composition outturn – PI-3 (February 1, 2016)

Data for year 2013						
Economic head	Budget	Actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	12,809,445.26	11,574,501	12,458,256.4	-883,755.3	883,755.3	7.1%
Taxes on payroll and workforce	0	0	0.0	0.0	0.0	-
Taxes on property	0	0	0.0	0.0	0.0	-
Taxes on goods and services (VAT)	6,016,419	7,347,964	5,851,470.4	1,496,493.4	1,496,493.4	25.6%
Taxes on exports	0	0	0.0	0.0	0.0	-
Other taxes (Duties)	4,710,030	4,160,107	4,580,897.9	-420,790.5	420,790.5	9.2%
Social contributions						
Social security contributions		0	0.0	0.0	0.0	-
Other social contributions		0	0.0	0.0	0.0	-
Grants						
Grants from foreign governments	1,525,539	1,018,885	1,483,713.9	-464,829.0	464,829.0	31.3%
Grants from international organizations	0	0	0.0	0.0	0.0	-
Grants from other government units	0	0	0.0	0.0	0.0	-
Other revenue						
Property income	0	0	0.0	0.0	0.0	-
Sales of goods and services	0	0	0.0	0.0	0.0	-
Fines, penalties and forfeits	0	0	0.0	0.0	0.0	-
Transfers not elsewhere classified	0	0	0.0	0.0	0.0	-
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes	0	0	0.0	0.0	0.0	-
Sum of rest (total non tax including charges, fees and fines)	1,209,997	1,449,704.87	1,176,823.5	272,881.4	272,881.4	23.2%
<b>Total revenue</b>	<b>26,271,430.06</b>	<b>25,551,162.10</b>	<b>25,551,162.1</b>	<b>0.0</b>	<b>3,538,749.6</b>	
<b>overall variance</b>						<b>97.3%</b>
<b>composition variance</b>						<b>13.8%</b>

Data for year 2014						
Economic head	Budget	Actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	10,780,680	11,499,290	10,248,282.9	1,251,007.6	1,251,007.6	12.2%
Taxes on payroll and workforce	0	0	0.0	0.0	0.0	-
Taxes on property	0	0	0.0	0.0	0.0	-
Taxes on goods and services (VAT)	8,099,061	9,512,294	7,699,093.7	1,813,200.3	1,813,200.3	23.6%
Taxes on exports	5,579.00	22,600.00	5,303.5	17,296.5	17,296.5	326.1%
Other taxes (Duties)	5,571,795	4,802,911	5,296,635.6	-493,724.5	493,724.5	9.3%
Social contributions						
Social security contributions	0	0	0.0	0.0	0.0	-
Other social contributions	0	0	0.0	0.0	0.0	-
Grants						
Grants from foreign governments	2,626,628	279,771	2,496,914.0	-2,217,143.5	2,217,143.5	88.8%
Grants from international organizations	0	0	0.0	0.0	0.0	-
Grants from other government units	0	0	0.0	0.0	0.0	-
Other revenue						
Property income	0	0	0.0	0.0	0.0	-
Sales of goods and services	0	0	0.0	0.0	0.0	-
Fines, penalties and forfeits	0	0	0.0	0.0	0.0	-
Transfers not elsewhere classified	0	0	0.0	0.0	0.0	-
Premiums, fees, and claims related to non-life insurance and standardized guarantee schemes	0	0	0.0	0.0	0.0	-

Sum of rest (total non tax including charges, fees and fines)	5,081,624	4,460,035	4,830,670.9	-370,636.4	370,636.4	7.7%
<b>Total revenue</b>	<b>32,165,367.59</b>	<b>30,576,900.62</b>	<b>30,576,900.6</b>	<b>0.0</b>	<b>6,163,008.8</b>	
<b>overall variance</b>						<b>95.1%</b>
<b>composition variance</b>						<b>20.2%</b>

Data for year 2015						
<b>E c o n o m i c head</b>	<b>Budget</b>	<b>Actual</b>	<b>a d j u s t e d budget</b>	<b>deviation</b>	<b>absolute deviation</b>	<b>percent</b>
Tax revenues						
Taxes on income, profit and capital gains	11,793,248	12,887,993	11,478,705.2	1,409,287.4	1,409,287.4	12.3%
Taxes on payroll and work-force	0	0	0.0	0.0	0.0	-
Taxes on property	0	0	0.0	0.0	0.0	-
Taxes on goods and services (VAT)	6,576,732	8,365,284	6,401,321.3	1,963,962.9	1,963,962.9	30.7%
Taxes on exports	30,589.00	27,537.00	29,773.1	-2,236.1	2,236.1	7.5%
Other taxes (Duties)	6,944,213	5,155,755	6,759,000.9	-1,603,245.9	1,603,245.9	23.7%
Social contributions						
Social security contributions	0	0	0.0	0.0	0.0	-
Other social contributions	0	0	0.0	0.0	0.0	-
Grants						
Grants from foreign governments	1,213,592	369,347	1,181,224.0	-811,877.5	811,877.5	68.7%
Grants from international organizations	0	0	0.0	0.0	0.0	-
Grants from other government units	0	0	0.0	0.0	0.0	-
Other revenue						

Property income	0	0	0.0	0.0	0.0	-
Sales of goods and services	0	0	0.0	0.0	0.0	-
Fines, penalties and forfeits	0	0	0.0	0.0	0.0	-
Transfers not elsewhere classified	0	0	0.0	0.0	0.0	-
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes	0	0	0.0	0.0	0.0	-
Sum of rest (total non tax including charges, fees and fines)	8,805,419	7,614,675	8,570,565.7	-955,890.7	955,890.7	11.2%
<b>Total revenue</b>			<b>34,420,590.3</b>	<b>0.0</b>	<b>6,746,500.5</b>	
<b>overall variance</b>						<b>97.3%</b>
<b>composition variance</b>						<b>19.6%</b>

### Results Matrix

Year	total revenue deviation	composition variance
2013	97.3%	13.8%
2014	95.1%	20.2%
2015	97.3%	19.6%



## Annex 6.4

### Assessment of PI-27 on Bank Reconciliation Submission by MPSAS to the Treasury

BANK RECONCILIATIONS FOR 2015 FINANCIAL YEAR													
HEAD	MONTHS OF PAYMENTS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
	MONTHS BANK RECS WERE DONE AND SUBMITTED TO THE TREASURY	04-Mar	04-Mar	NA	01-Oct	01-Oct	01-Oct	01-Oct	24-	NA	NA	NA	NA
46	MIN OF HEALTH												
BANK RECONCILIATIONS FOR 2016 FINANCIAL YEAR													
46	MIN OF HEALTH	NA	NA	NA	NA	NA	NA	NA	24 - Mar	24-Feb	24 - Feb	24 - Feb	24 - Feb
51	TRANSPORT AND COMM	NA	NA	15-Jul	27-Jul	29-Jul	03-Aug	NA	NA	NA	NA	NA	NA
91	PROVINCIAL ADMIN-NDOLA	NA	NA	28-Jul	28-Jul	28-Jul	28-Jul	NA	NA	NA	NA	NA	NA
3	NATIONAL ASSEMBLY	NA	NA		06-May	02-Jun	NA	16-Aug	NA	NA	NA	NA	NA
14	MIN OF MINES	04-Aug	19-Aug	19-Aug	19-Aug	04-Aug	04-Aug	NA	NA	NA	NA	NA	NA
10	ZAMBIA CORRECTIONAL SERVICES	NA	NA	17-Aug	17-Aug	NA	17-Aug	17-Aug	17 - Aug	NA	NA	NA	NA
85	MIN OF LANDS	19-Jul	19-Jul	19-Jul	19-Jul	19-Jul	19-Jul	NA	NA	NA	NA	NA	NA
87	ANTI-CORRUPTION COMMISSION	18-Jul	18-Jul	18-Jul	18-Jul	18-Jul	NA	NA	NA	NA	NA	NA	NA
44	MIN OF LABOUR	22-Aug	22-Aug	22-Aug	22-Aug	22-Aug	22-Aug	NA	NA	NA	NA	NA	NA
80	MIN OF EDUCATION	NA	NA	27-Jul	27-Jul	27-Jul	27-Jul	NA	NA	NA	NA	NA	

**NOTE:** (1) .ABOUT 90% OF THE SAMPLED MPSAs WERE BEHIND BY AN AVERAGE OF 3 TO 6 MONTHS IN SUBMISSION OF BANK RECONCILIATIONS TO THE TREASURY.

(2). NA- MEANS THE BANK RECONCILIATIONS COPIES WERE NOT MADE AVAILABLE FOR ASSESSMENT.

**Annex 6.5: Calculation of amounts allocated to CDF and LGEF as a percentage of the total budget transfers to Local Authorities**

Fiscal Year	CDF	LGEF	Total of CDF and LGEF	Total Transfers	Amounts allocated to CDF and LGEF as a percentage of the total budget transfers	Actual amounts transferred to CDF and LGEF as a percentage of the total budget transfer		
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
2013								
	195,000,000.00							
	25,000,000.00							
	340,000,000.00							
	81,666,666.00							
	535,000,000.00							
	106,666,666.00							
	693,596,000.00							
	106,666,666.00							
	77.13%							
	15.38							
	%							
2014	210,000,000.00							
	72,800,000.00							
	586,759,459.00							
	586,759,459.00							
	796,759,459.00							
	659,559,459.00							
	883,026,085.00							
	700,485,283.00							
	90.23%							
	74.69%							

2015	210,000,000.00							
	190,933,334.00							
	434,016,216.00							
	378,037,157.00							
	644,016,216.00							
	568,970,491.00							
	841,491,095.00							
	599,160,125.00							
	76.53%							
	67.61%							
<b>Totals</b>	<b>615,000,000.00</b>							
	<b>288,733,334.00</b>							
	<b>1,360,775,675.00</b>							
	<b>1,046,463,282.00</b>							
	<b>1,975,775,675.00</b>							
	<b>1,335,196,616.00</b>							
	<b>2,418,113,180.00</b>							
	<b>1,406,312,074.00</b>							
	<b>81.71%</b>							
	<b>55.22%</b>							



