

1.0 SIGNIFICANT ACCOUNTING POLISIES

1.1 Summary of Accounting Policies

The principle accounting policies adopted in the preparation of these financial statements are set out below:

1.2 Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with the PFM Act 2003 and other related legal framework. These Consolidated Financial Statements have been authorized for issue by the Minister of Finance, Economic Planning and Development.

1.3 Reporting Entity

The Consolidated Financial Statements have been prepared by Ministry of Finance, Economic Planning and Development in pursuant to Section 13 and 83 of the PFM Act, 2003 that empowers the Secretary to the Treasury to prepare consolidated financial statements of the Government of Malawi.

1.3 Basis of Preparation

The Consolidated Financial Statements have been prepared on the cash basis IPSAS Accrual Stage 2, which incorporates the financial assets and financial liabilities, applied in all material aspects, unless otherwise stated.

1.4 Reporting periods

The Government of Malawi fiscal year runs from 1st July to 30th June. These financial statements cover the period 1st July 2018 to 30th June 2019. The comparative figures reflect the 12 months ended 30th June 2018.

2.0 Significant accounting policies

The accounting policies set out in this section have been consistently applied by all consolidated entities and for all the years presented.

2.1 Basis of consolidation

The Consolidated Financial Statements are aggregated on a line by line basis with the inter-entity transactions of revenue and expenditure being eliminated at the national consolidation level to avoid overestimation of revenue or expenses.

2.2 Disclosure of entities included in consolidation

The consolidation includes a total of Central Government Budget Agencies, and Local Government entities. The Consolidated Annual Appropriation Accounts are made up of financial results of all ministries, departments and agencies controlled by the Government of Malawi. The financial results for the Councils in Local Government are presented up to the extent of Central Government Transfers.

The full list of consolidated entities is provided under annex 1 to these consolidated financial statements.

2.3 Disclosure of entities excluded from consolidation

The financial statements of the public and private enterprises have not been consolidated in the Government consolidated financial statements rather the payments relating to acquisition of shares are recognized as capital expenditure in the year of payment while proceeds from sale of any investments is also recognized as income in the year of sale.

The main reason for their exclusion is that these entities are using the accrual basis of accounting base under the IFRS while the entities under the scope of consolidation have prepared their financial statements under the accrual stage 2 or modified cash basis of accounting. The excluded entities shall however in future be progressively included in the consolidated financial statements upon direction by the Accountant General.

3.0 Revenue

3.1 Tax Revenue

The Malawi Revenue Authority (MRA) is the principal revenue collector of Government Revenues mainly in form of taxes. Local Governments have also been allowed to collect certain forms of taxes within their area of jurisdiction. Tax revenues are recognized in the books of

accounts when cash is received. Cash is considered as received when notification of tax remittance is received.

3.2 Grants and transfers

This include grants and donations from foreign Governments, international organizations and transfers between general Government units which includes Treasury transfers, Inter-entity and intra-entity transfers. Intra-entity transfers refer to transfers between cost centres within a public entity.

The following applies to grants and transfers:

- i) Grants and donations are recognized in the books of accounts when cash is received and in case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value.
- ii) Transfer from Treasury are recognized in the books of accounts when cash is received.
- iii) Transfers received from Government entity for onward payment to a third party are not treated as an inter-entity (revenue) rather, such transfers shall be recorded as transit fund (liability) in the books of the receiving entity.
- iv) Transfers from Treasury that are not related to current fiscal year budget are not treated as cash transfers. Instead such transfers shall be treated as inter-entity transfers.
- v) Transfers from entities to Treasury which does not relate to the current fiscal year budget are treated by Treasury as inter-entity transfers.
- vi) Funds returned to Treasury at the end of the fiscal year as a result of zero balance accounts sweeping are not recognized as inter-entity transfers. Instead, those funds will reduce the cash transfer account balance for the same year. Where such transfers are received by Treasury in the subsequent fiscal year (such as embassies and foreign missions) such transfers is recognized as inter-entity transfers.

3.3 Borrowings

The Ministry of Finance, Economic Planning and Development is the principal borrowing agent for Central Government. Public debt and associated interest is recognized on cash basis. Proceed from loan borrowing is recognized as revenue during the year of receipt at cost and repayment as expenditure in the year of repayment. Cash is considered as received when recipient entity received a transfer advice from the lender rather than when cash is received in the bank account of the receiving entity.

3.4 Capital receipts

An entity may receive revenue from sale of Government property. Revenue is recognized in the books of accounts when cash is received.

3.5 Other revenue

An entity may levy, charge and collect fees, including licensing fees or any other revenue. These are recognized in the books of accounts when cash is received. Cash is considered as received when a receipt is issued or a credit advice received.

4.0 Expenditure

4.1 Compensation of employees, goods and services, acquisition of assets and inventory

Expenditure relating to compensation of employees, purchase of goods and services, acquisition of capital assets and inventories are accounted for on a cash basis and recognized in the books of accounts when an expenditure is incurred and associated cash and cash equivalent are paid out.

4.2 Grants and transfers, subsidies, loan repayments and other expenditure

Expenditure relating to grants and transfers, subsidies, principal loan repayments and interest, investments, lending and on-lending, social benefits as well as other expenditure are accounted for on cash basis and recognized in the books of accounts when cash and cash equivalent is paid out. Cash is considered as paid when consideration for payment such as EFT, Cheque, Payment Order are signed rather than when cash and cash equivalent are debited from the bank statement.

5.0 Financial assets and liabilities

5.1 Cash and cash equivalents

Cash comprises cash on hand, demand deposits and cash equivalents. Demand deposits and cash equivalents comprise balances with banks and investments in short-term money market instruments which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Reserve Bank of Malawi, foreign bank for the case of embassies and high commissions and at various commercial banks at the end of the financial year.

5.2 Accounts Receivables

Receivables mainly relate to loans and advances which are recognized at the time of disbursement. Receivables also include amounts due to the budget agency as at the end of the year. For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. Other accounts receivables are disclosed in the financial statements.

5.3 Liabilities

For the purposes of these financial statements, deposits and retentions held on behalf of third parties has been recognized as accounts payables. These mainly relate to invoices for goods and services which were outstanding on the date of the closure of the fiscal year. These are recognized as liabilities for that specific fiscal year. It also includes borrowings received by budget agencies from local commercial Banks as these are not regarded as public debt. Other liabilities including pending bills are disclosed in the financial statements.

5.4 Outstanding bills

Outstanding bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As outstanding bills do not involve the payment of cash in the reporting period, they are recorded as 'arrears' to provide a sense of the overall net cash position of the Government at the end of the year. Outstanding bill form a first charge to the

subsequent year budget and when they are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

6.0 Foreign currencies

Transactions denominated in foreign currencies are initially translated to the Malawi Kwacha at the foreign exchange rate at the date of transaction. The Reserve Bank of Malawi provides exchange rates for major foreign currencies on a daily basis. These are presented for selling rate (rate the bank will sell foreign currency to its clients), buying rate (rate the bank will buy foreign currency from its clients) and average rate (average between the selling and buying rate).

During the year, revenue items are translated using the selling rate (this equals the Buying rate presented at RBM website) of the transaction day whereas the Expense items should be translated using the buying rate (this equals the Selling rate presented at RBM website) of the transaction day. The associated exchange losses are recorded as other expenditure while exchange gains should be recorded as other revenue.

At the end of the year, book balances, Assets (such as bank and cash and accounts receivables) and liability (such as accounts payables), denominated in foreign currencies are converted into the Malawi Kwacha at the average rate of exchange ruling on that closing date, as issued by the Reserve Bank of Malawi. The associated exchange losses/gains are recorded as expenditure/income in the books.

7.0 Investments

Investments represent equity investments in local Public Enterprises and other international entities. In line with the modified cash basis of accounting, investments made during the year, are expensed and accounted as part of capital expenditures or acquisition of assets while proceeds from sales of some investments as well as dividends are accounted as receipts during the year in which these have been received.

8.0 Public Debt

Public debt comprises domestic and external borrowing by the Government. The

Government has adopted a policy of recognizing proceeds from domestic market debt, such as treasury bills and bonds, and external borrowing as income in the year of receipt while the repayments are expensed when paid. Accordingly, public debt is not included in the statement of financial assets and liabilities. The stock of loans is maintained and reported in a statement of Public Debt.

9.0 Non-current assets

Non-current assets are expensed at the time of acquisition while disposal proceeds are recognized as receipts at the time of disposal. However, the acquisitions and disposals are reflected in fixed asset register a summary of which is provided as a memorandum to these financial statements.

9.1 Property, Plant and Equipment

The expenditure on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as expenditure and receipt items respectively.

9.2 In-kind contributions

In-kind contributions are donations that are made to the Government in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Government includes such value in the statement of receipts and payments both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

10.0 Budget Information

The budget referred in the Consolidated Financial Statements represents the revised approved budget for the year 2018/19 for both central and local government.

10.1 Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

11.0 Subsequent events

Events subsequent to submission of the financial year end financial statements to the National Audit Office and other stakeholders with a significant impact on the financial statements may be adjusted with the concurrence of the Accountant General's Department.

There have been no events subsequent to the financial year end with a significant impact on the Consolidated Financial Statements for the year ended 30th June, 2019.