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INFLUENCE OF INTERNAL CONTROL SYSTEMS AND REVENUE FORECASTING ON BUDGET ADHERENCE AT SALIMA DISTRICT COUNCIL, MALAWI

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Declaration

I declare that this dissertation is my original work and has not been submitted to any other institution for the award of a degree. Where the work of others has been used, it has been appropriately acknowledged in accordance with APA 7th Edition requirements.

Signature: _________________________________

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Dedication

This dissertation is dedicated to my family, colleagues, and mentors whose encouragement, sacrifice, and support made this work possible.

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Abstract

This dissertation examines the influence of internal control systems and revenue forecasting on budget adherence at Salima District Council in Malawi. The study starts from the premise that a budget is not merely an annual estimate of revenues and expenditures; it is the main operational expression of public policy, a coordination device across sectors, and a central accountability instrument in decentralised governance. Budget adherence, or budget credibility, therefore matters because it indicates whether approved priorities are implemented broadly as intended. In district councils, weak budget adherence

can translate into interrupted service delivery, delayed procurement, reallocation away from intended purposes, accumulation of arrears, and declining public confidence.

The study adopted a convergent parallel mixed-methods design. Quantitative evidence was drawn from audited financial statements for fiscal years 2021/22 and 2022/23, budget-versus-actual schedules for 2022/23, receivables and payables schedules, and the council cash-flow template used for planning central transfers. Qualitative evidence was generated from questionnaire responses and key informant interviews with officers involved in finance, planning, internal audit, procurement, and revenue administration. The quantitative strand relied on descriptive statistics, ratio analysis, variance analysis, and trend interpretation. The qualitative strand used thematic analysis guided by COSO and INTOSAI control dimensions.

The documentary analysis reveals that Salima District Council's resource envelope is overwhelmingly shaped by donor funding and central government transfers. In 2022/23, donor funds accounted for approximately 69.77% of total revenue, central government transfers for 25.49%, and the combined share of these external sources reached about 95.26%, leaving own-source revenue at only 4.74% of total inflows. On the expenditure side, donor-funded spending represented about 49.87% of total expenses. Although aggregate budget variance was modest in the 2022/23 budget-versus-actual schedule, significant composition deviations appeared in general public services and development expenditure, suggesting that headline adherence concealed important reallocations. Meanwhile, the statement of performance recorded a deficit of MWK 2,187,707,459 and operating cash flow turned negative, indicating liquidity stress despite strong nominal revenue growth.

The qualitative findings indicate that the control environment is formally established but unevenly enforced; risk assessment is underdeveloped; internal audit capacity and follow-up are constrained; receivables recovery is weak; and forecasting remains predominantly incremental and judgment-based. Forecasts often reflect expected billing or entitlements rather than conservative cash-realisation assumptions. This weakens the translation of approved budgets into executable spending plans, especially where disbursement timing is uncertain and outstanding debtors are high. The dissertation concludes that internal controls and revenue forecasting are not independent determinants of budget adherence but mutually reinforcing drivers of budget credibility. Realistic forecasting is needed to create executable ceilings, while effective controls are required to align commitments, procurement, cash management, and corrective action with realised resources. The study recommends risk-based internal controls, hybrid cash-sensitive forecasting methods, stronger internal audit independence, more aggressive receivables management, monthly variance dashboards, disciplined commitment controls in IFMIS, and improved coordination among finance, planning, and user departments.

List of Abbreviations

CDF – Constituency Development Fund

COSO – Committee of Sponsoring Organizations of the Treadway Commission

DDF – District Development Fund

ICS – Internal Control Systems

IDF – Infrastructure Development Fund

IFMIS – Integrated Financial Management Information System

INTOSAI – International Organization of Supreme Audit Institutions

IPSAS – International Public Sector Accounting Standards

MWK – Malawi Kwacha

NLGFC – National Local Government Finance Committee

ORT – Other Recurrent Transactions

OSR – Own-Source Revenue

PFM – Public Financial Management

RF – Revenue Forecasting

Table of Contents (Indicative)

Chapter One: Introduction

1.1 Background of the Study

Public financial management is the system through which governments raise revenue, allocate resources, control spending, record transactions, and report on the use of public money. Within that broader system, the budget occupies a privileged place because it links policy ambitions to spending authority, assigns responsibilities to implementing institutions, and provides the benchmark against which public officials are held accountable. In decentralised settings, the district budget is also a practical coordination tool: it signals what programmes can be initiated, what procurement can be undertaken, what projects can be sequenced, and what services communities can reasonably expect in a given financial year. For that reason, the credibility of district budgets is central to the quality of local governance.

In the literature, budget adherence or budget credibility refers to the degree to which actual revenue and expenditure outcomes align with the originally approved budget. A budget is credible when the resources projected in the plan are substantially realised and when expenditure execution broadly respects approved aggregate ceilings and policy allocations. In practice, this means that the budget should be realistic when it is prepared and should remain sufficiently disciplined when it is executed. Budget credibility has both aggregate and compositional dimensions. Aggregate adherence focuses on whether total spending and total revenue outturns are close to the approved plan, while composition adherence asks whether spending occurred in the sectors and functions originally authorised. A government can therefore appear to perform reasonably at the aggregate level while still undermining policy priorities through significant in-year reallocations.

The issue is especially important in developing countries and in subnational governments because district councils are often responsible for frontline services such as primary education support, local roads, health support functions, agriculture extension coordination, water interventions, and community development projects. When district budgets are not implemented as intended, the result is not merely an accounting discrepancy. Service delivery schedules are disrupted, contractors and suppliers face delayed payments, communities experience partially implemented projects, and oversight institutions receive weaker signals about performance. In extreme cases, poor budget credibility contributes to arrears, waste, and reputational damage for the council and the wider decentralisation system.

Malawi's decentralisation architecture sought to enhance local participation, responsiveness, and service delivery by transferring selected planning and expenditure functions to local authorities. The Local Government Act assigns councils governance, planning, resource mobilisation, and implementation responsibilities, while emphasising democratic participation and accountability. At the same time, the practical operation of district finances remains complex. Councils depend on a combination of central transfers, donor grants, project funds, and relatively small own-source revenues. These inflows may have different conditions, timing patterns, reporting requirements, and expenditure restrictions. Consequently, district budget execution is highly sensitive to the realism of revenue forecasts, the quality of internal controls, and the discipline of cash and commitment management.

Internal control systems are the set of policies, procedures, behaviours, and institutional arrangements designed to provide reasonable assurance that organisational objectives will be achieved. In public entities, internal controls are not limited to preventing fraud or detecting accounting errors. They also support lawful expenditure, safeguarding of assets, segregation of duties, reliable financial reporting, efficient operations, and timely corrective action. A useful way of conceptualising internal controls is through the COSO framework, which identifies five interrelated components: control environment, risk assessment, control activities, information and communication, and monitoring. INTOSAI adapts this thinking to the public sector by emphasising ethics, accountability, legality, safeguarding of resources, and the need to align control processes with public missions. In local governments, internal controls influence budget adherence by shaping how commitments are authorised, how procurement is controlled, how revenue is billed and collected, how exceptions are escalated, and how management responds to variances.

Revenue forecasting is the second key concept in this dissertation. Forecasting is the process of estimating how much revenue is likely to be available in the budget year. Accurate forecasting matters because expenditure ceilings are only meaningful if they are anchored in reasonably achievable resource expectations. If the forecast is overly optimistic, spending units may plan activities that cannot be financed, generating mid-year cuts, cash rationing, or unpaid obligations. If the forecast is too conservative, the council may under-plan priority services or fail to exploit lawful spending opportunities. In practice, forecasting at district level is challenging. Own-source revenues such as property rates, fees, licences, exchange transactions, and user charges depend on billing quality, enforcement, taxpayer compliance, economic activity, and political willingness to enforce sanctions. Transfers and donor grants may be formally committed but still subject to timing uncertainty, conditions precedent, or implementation bottlenecks.

Salima District Council provides a compelling case through which to examine these issues. The audited financial statements included in the draft dissertation show a council whose revenue base expanded sharply between 2021/22 and 2022/23, mainly because donor inflows increased substantially. Yet the same statements reveal continued deficits, declining year-end cash, negative operating cash flow in 2022/23, substantial receivables and payables, and material expenditure composition deviations in budget execution. These patterns raise the question of whether the budget difficulties are best understood as forecasting problems, control problems, or an interaction of both. A district council can fail to adhere to budget plans because revenues were badly forecast, but it can also fail because weak controls allow commitments to outrun cash, because reallocation governance is weak, or because receivables and procurement are poorly managed. The most plausible explanation is often a combination of these mechanisms.

1.2 Statement of the Problem

Despite public financial management reforms in Malawi, including the introduction of Integrated Financial Management Information Systems, local authorities continue to face persistent execution challenges. Audit evidence from Malawi has repeatedly highlighted documentation gaps, weak accountability, procurement irregularities, revenue leakages, and delays in producing high-quality financial statements. Against this background, the financial statements for Salima District Council show fiscal stress rather than smooth execution. In 2022/23 the council recorded a deficit of about MWK 2,187,707,459 and an accumulated deficit exceeding MWK 2.6 billion. Operating cash flow turned negative and year-end cash balances fell compared with the prior year. The council also carried notable receivables and current payables. At the budget-execution level, aggregate variance appeared low in 2022/23, but the composition of spending deviated materially in critical categories such as general public services and development expenditures.

These patterns suggest that the approved budget may not have functioned as a fully credible operational plan. However, the precise mechanisms behind this weak adherence are not sufficiently understood. Existing discussion often treats poor budget performance as a general capacity problem. Yet for reform design, it matters whether the core problem lies in weak internal controls, weak revenue forecasting, the sequencing of cash planning, or the interaction among these factors. Without such diagnosis, corrective action risks remaining generic and ineffective.

1.3 Aim of the Study

The aim of this study is to examine the influence of internal control systems and revenue forecasting on budget adherence at Salima District Council and to propose practical reforms that can strengthen budget credibility.

1.4 Research Objectives

The study pursues the following specific objectives:

(a) to assess the effectiveness of internal control components at Salima District Council;
(b) to evaluate the revenue forecasting methods and practices used for own-source and other revenue streams;
(c) to analyse budget adherence using audited financial statements and budget-versus-actual comparisons;
(d) to determine how weaknesses in internal controls and forecasting interact to affect budget execution; and
(e) to recommend measures for improving budget credibility and fiscal discipline.

1.5 Research Questions

The dissertation is guided by four principal questions. First, how effective are the internal control system components at Salima District Council? Second, what revenue forecasting methods are used and what weaknesses affect forecast realism? Third, what is the extent and pattern of budget deviations at the council? Fourth, how do internal control systems and revenue forecasting jointly influence budget adherence?

1.6 Research Hypotheses

The quantitative orientation of the study is framed by three hypotheses. H1 states that effective internal control systems are positively associated with improved budget adherence. H2 states that accurate and evidence-based revenue forecasting is positively associated with improved budget adherence. H3 states that weak internal controls combined with optimistic revenue forecasting increase the likelihood of budget deviations.

1.7 Significance of the Study

The study has policy, practical, and academic significance. Policy-wise, it speaks directly to the quality of fiscal decentralisation in Malawi. District councils cannot deliver effectively if their approved budgets are routinely destabilised by unrealistic forecasts, fragmented cash planning, and weak expenditure controls. The study therefore offers evidence that can inform the Ministry responsible for local government, the Ministry of Finance, the National Local Government Finance Committee, district councils, and audit institutions. Practically, the study provides specific recommendations for finance managers, internal auditors, planners, and revenue officers on forecasting, receivables management, commitment control, variance review, and internal audit follow-up. Academically, the dissertation contributes to the limited council-level literature in Malawi by analysing internal controls and revenue forecasting together rather than as isolated topics.

1.8 Scope and Delimitation of the Study

The dissertation focuses on Salima District Council as a district-level public entity operating within Malawi's decentralised governance framework. Quantitative evidence centres on audited financial statements for FY2021/22 and FY2022/23 and detailed budget-versus-actual information for FY2022/23, supplemented by receivables, payables, donor schedules, and a cash-flow planning template. Qualitative evidence covers officers directly involved in planning, finance, procurement, revenue administration, and internal audit. The study examines budget adherence in relation to internal controls and revenue forecasting; it does not attempt a full performance audit of all programmes or a macroeconomic assessment of the entire intergovernmental fiscal system.

1.9 Conceptual Framework

The conceptual framework underpinning this dissertation treats budget adherence as the dependent outcome. Internal control effectiveness and revenue forecasting quality are the main independent variables. Internal control effectiveness is conceptualised through the COSO components: control environment, risk assessment, control activities, information and communication, and monitoring. Revenue forecasting quality includes the choice of forecasting method, use of historical data, incorporation of collection ratios, treatment of arrears, and the extent of sensitivity to timing risk. The relationship between these variables is mediated by IFMIS utilisation, cash-flow planning, commitment discipline, and management response to variances. The model assumes that strong controls can partially offset forecasting errors by limiting premature commitments and strengthening corrective action, while good forecasting improves the usefulness of controls by setting realistic ceilings for execution.

1.10 Definition of Key Terms

Budget adherence or budget credibility refers to the extent to which actual revenues and expenditures align with the approved budget in aggregate and composition terms. Internal control systems refer to the policies, procedures, structures, behaviours, and oversight mechanisms that provide reasonable assurance regarding lawful, efficient, ethical, and effective operations. Revenue forecasting refers to the process of estimating expected revenue inflows for budget planning and execution. Own-source revenue refers to revenues raised locally by the council such as property rates, fees, licences, and related charges. Commitment control refers to the system of preventing expenditure commitments from exceeding approved allocations and anticipated cash availability.

1.11 Organization of the Dissertation

The dissertation is organised into six chapters. Chapter One introduces the study. Chapter Two reviews the theoretical and empirical literature on budget credibility, internal controls, and revenue forecasting. Chapter Three sets out the methodology. Chapter Four presents the results and findings. Chapter Five discusses the findings in relation to theory and prior evidence and provides policy and managerial recommendations. Chapter Six concludes the study.

Chapter Two: Literature Review

2.1 Introduction

This chapter reviews the literature relevant to budget adherence, internal control systems, and revenue forecasting, with particular emphasis on public-sector and local-government settings. It develops the theoretical grounding of the study, analyses competing explanations for budget deviations, and synthesises empirical evidence from international, African, and Malawian contexts. The review is intentionally integrative because the core argument of the dissertation is that budget credibility emerges from the interaction of realistic planning and disciplined execution, not from either factor in isolation.

2.2 Conceptualising Budget Adherence and Budget Credibility

Budget credibility is widely regarded as a foundational outcome of public financial management. The PEFA framework defines budget reliability in terms of whether the budget is realistic and implemented as intended. This framing is important because it links credibility to both ex ante realism and ex post execution discipline. In this sense, a budget ceases to be credible when the government systematically overshoots or undershoots total expenditure, when revenues are persistently misestimated, or when the composition of outturn differs materially from the approved pattern of allocations. The analytical strength of the budget credibility concept is that it does not equate compliance with mere spending control. A budget can be executed without breaching total spending limits and still fail to reflect democratic authorisation if spending is reallocated away from approved priorities.

The literature identifies at least four dimensions of budget credibility. First is aggregate expenditure adherence: whether actual total spending approximates the original approved budget. Second is expenditure composition adherence: whether resources are spent in the sectors, programmes, or functions originally approved. Third is revenue adherence: whether actual revenues are close to the amounts built into the budget. Fourth is the management of arrears and cash pressures: whether budget execution avoids the accumulation of unpaid obligations that postpone rather than solve fiscal imbalances. These dimensions are analytically related. A shortfall in revenue can trigger expenditure compression, delayed payments, or reallocation. Conversely, weak control of commitments can generate expenditure pressures even when revenue forecasts were reasonable.

Budget credibility matters because it shapes planning behaviour within government. When sector managers do not trust the budget, they respond strategically: they delay procurement, inflate requests, seek informal reallocations, or prioritise short-term commitments over programme coherence. Over time, this undermines the budget as a coordination mechanism and weakens the incentives for honest planning. For local governments, this problem is magnified because district councils typically operate under tighter cash conditions, more fragmented funding streams, and narrower administrative capacity than central ministries. Moreover, local communities experience the operational consequences of poor credibility more directly through incomplete projects, delayed service inputs, and uneven outreach activities.

2.3 Theoretical Perspectives

2.3.1 Principal–Agent Theory

Principal–agent theory offers one of the clearest lenses for understanding budget deviations. In public finance, citizens, elected representatives, and oversight institutions are the principals, while public officials who prepare and execute budgets are the agents. Because agents possess more information than principals, they may have incentives to bias revenue estimates upward, understate costs, or obscure risks in order to secure approval for preferred programmes. Once the budget is approved, agents may still exercise discretion in ways that are not fully aligned with legislative or public intent. Internal controls and transparency mechanisms reduce such agency problems by improving traceability, documentation, and accountability. From this perspective, poor budget adherence is partly the result of weak monitoring and incentive incompatibility.

The theory also helps explain optimistic forecasting. Officials may forecast higher revenues to create room for larger spending allocations or to make a proposed budget appear more balanced. This does not necessarily require deliberate misconduct; it can also stem from institutional optimism, soft budget constraints, or the absence of consequences for forecast error. In district councils, where pressure to satisfy multiple political and administrative stakeholders is often intense, such bias can enter forecasts subtly through unsupported assumptions about collections, grants, or donor disbursements.

2.3.2 Institutional Theory

Institutional theory focuses on how organisations adopt formal structures to gain legitimacy while implementation may lag or differ in practice. In public financial management, governments may formally adopt IFMIS platforms, internal audit units, budgeting manuals, and control procedures but still operate informally around them. This phenomenon, often described as decoupling, is especially relevant where reforms are externally encouraged or donor-supported. The presence of control architecture does not guarantee effective control practice. In the present study, institutional theory suggests that Salima District Council may have formal internal control structures that appear adequate on paper, yet practical weaknesses may remain in enforcement, staff capability, follow-up, or risk management.

Institutional theory is also useful for understanding why control reforms sometimes fail to change outcomes. Organisations embedded in strong rule-bound environments may comply symbolically with reporting and procedural requirements without integrating them into day-to-day decision-making. For example, a council may prepare variance reports but not use them for corrective action, maintain an internal audit unit with insufficient independence, or use IFMIS for recording rather than for proactive commitment control.

2.3.3 Contingency Theory

Contingency theory argues that there is no universally optimal control or budgeting system; effectiveness depends on contextual conditions such as environmental uncertainty, organisational size, technology, task complexity, and resource dependence. Applied to local government finance, this means that the design of internal controls and forecasting methods should fit the volatility and composition of the council's revenue base, the sophistication of its information systems, and the capability of its staff. A district council heavily dependent on donor project financing and central transfers faces different risks from a council financed primarily through robust own-source revenue. The former requires stronger cash forecasting, grant tracking, and project-specific compliance management, while the latter may need stronger billing, valuation, enforcement, and taxpayer database controls.

Contingency theory also explains why simple forecasting methods may perform poorly in volatile contexts. Incremental forecasting can work reasonably in stable tax systems with predictable bases, but where collections are irregular, arrears are high, and disbursement timing fluctuates, historical increments are an unreliable anchor. Likewise, highly elaborate quantitative models may fail where data quality is poor. What matters is fit: forecasting and control systems should match the risk profile and administrative reality of the council.

2.3.4 Resource Dependence Theory

Resource dependence theory emphasises how organisations are shaped by their reliance on external actors for critical resources. This perspective is highly relevant to district councils in Malawi, many of which depend heavily on transfers and donor support. When a large share of the resource envelope is controlled externally, councils have limited autonomy over the timing and sometimes even the use of funds. This creates vulnerability to cash-flow volatility, conditionality, and implementation delays. Under such conditions, budget credibility cannot be understood solely as a product of internal technical quality. It is also a function of intergovernmental and donor relationships. Nevertheless, councils remain responsible for adapting their control and planning systems to this reality through conservative forecasting, conditional commitments, and stronger in-year monitoring.

2.4 Internal Control Systems in the Public Sector

The modern understanding of internal control is strongly shaped by the COSO framework. COSO defines internal control as a process effected by an entity's board, management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives related to operations, reporting, and compliance. The 2013 update retained the five original components and articulated 17 principles supporting them. The public-sector relevance of COSO lies in its broad conception of control. Internal control is not limited to checking vouchers after payment; it encompasses governance values, clarity of authority, risk awareness, information flows, and monitoring behaviour.

The first component, control environment, concerns integrity, ethical values, oversight structures, accountability, and competence. In district councils, the control environment is expressed through tone at the top, adherence to financial instructions, clarity of delegated authority, respect for procurement rules, and responsiveness to audit findings. A weak control environment can render technical controls ineffective because staff quickly learn whether compliance is valued in practice.

The second component, risk assessment, requires organisations to identify, analyse, and respond to risks that threaten objectives. Public-sector risk assessment is often the least mature element of the control system. Yet it is crucial for budget execution because the main threats to adherence are inherently risk-based: delayed transfers, donor disbursement conditions, procurement bottlenecks, receivables non-payment, unexpected expenditure commitments, and weak documentation. Without explicit risk identification, councils tend to react after variances have already materialised.

The third component, control activities, includes approvals, verifications, reconciliations, segregation of duties, access controls, budget checks, and commitment controls. These are the visible procedures most commonly associated with internal control. In local governments, control activities influence whether expenditures are properly authorised, whether payment vouchers are fully supported, whether procurement follows rules, whether payroll changes are reviewed, and whether receivables are billed and pursued. However, literature warns against equating control effectiveness with the mere existence of procedures. Procedures can be bypassed, inconsistently applied, or poorly documented.

The fourth component, information and communication, concerns the identification, capture, and exchange of relevant information in a form and time frame that enable people to perform their duties. For budget adherence, this includes timely budget reports, monthly cash information, donor disbursement updates, debtor ageing analyses, internal audit reports, and management communication on corrective action. Weak information flows often mean that budget problems are detected too late to allow an orderly response.

The fifth component, monitoring, refers to ongoing and separate evaluations of whether controls are present and functioning. In public entities, monitoring includes supervisory review, internal audit, management meetings, and the tracking of implementation of audit recommendations. Monitoring is especially important because conditions change during execution. A budget that was realistic in July may become unrealistic in October due to delayed transfers, exchange-rate pressures, or procurement failures. Unless the control system is monitored, management cannot adjust ceilings, commitments, or enforcement strategies in time.

INTOSAI's public-sector guidance complements COSO by stressing orderly, ethical, economical, efficient, and effective operations; accountability; compliance with laws; and safeguarding of resources. The public sector differs from the private sector in several respects. It pursues multiple objectives, uses public money, operates under legal and political scrutiny, and must balance economy and legality with service delivery. INTOSAI therefore highlights ethics, public trust, and resource safeguarding as central control concerns. This is particularly relevant for local governments, where informal workarounds and selective enforcement can quickly erode confidence.

2.5 Internal Audit and Budget Execution

Internal audit plays a crucial assurance and advisory role in budget execution. The literature assigns internal audit three major contributions to budget credibility. First, it evaluates whether controls over budgeting, procurement, payroll, revenue, and payment processes are working as intended. Second, it provides management with independent insight into recurring weaknesses and emerging risks. Third, by following up recommendations, it increases the probability that management corrects deficiencies before they become systemic. Several studies in public-sector auditing note that internal audit effectiveness depends not only on technical skill but also on organisational independence, access to records, responsiveness of management, and a functioning audit committee or equivalent oversight mechanism.

In local governments, internal audit is frequently constrained by staffing shortages, limited transport and field verification resources, weak analytics, or insufficient status within management structures. Where internal audit focuses primarily on post-transaction compliance checking, it may detect irregularities without changing behaviour. By contrast, risk-based internal audit linked to budget priorities can provide early warning on areas such as receivables management, utility arrears, project implementation, and unsupported payments. The literature therefore suggests that internal audit contributes most to budget adherence when its work is integrated into management decision-making rather than isolated as a retrospective inspection function.

2.6 Revenue Forecasting in Local Government

Revenue forecasting is a central activity in budget preparation because it defines the realistic resource envelope within which spending choices must be made. In local government, forecasting is complicated by the diversity of revenue streams and their differing determinants. Own-source revenues may depend on taxable property values, enforcement intensity, user demand, inflation, economic activity, and legal changes. Transfers depend on formulas, budget releases, treasury cash conditions, and compliance with reporting requirements. Donor funds depend on project agreements, procurement milestones, and fulfilment of conditions.

Forecasting methods can be grouped into judgmental, incremental, time-series, causal, and hybrid approaches. Judgmental methods rely heavily on expert assessment and local knowledge. Incremental methods adjust the previous year's outturn by a percentage or by expected growth. Time-series methods use historical data patterns to estimate future revenue, while causal methods link revenue to underlying drivers such as the tax base or economic indicators. Hybrid approaches combine statistical trends with administrative intelligence. The literature on local government forecasting generally argues that no single method dominates across contexts. Simpler methods may perform adequately when revenue bases are stable and data is limited, whereas hybrid methods often offer better practical performance in environments characterised by data weaknesses but significant managerial knowledge.

A key distinction in public finance forecasting is between accrual expectations and cash-realisation expectations. Councils may record revenue entitlements or issue bills that are legally due, but execution discipline depends on cash actually collected or released. This distinction is critical where arrears are high. If the budget assumes that billed amounts will translate into cash without applying collection ratios or enforcement assumptions, expenditure ceilings become inflated. This dissertation therefore pays particular attention to the treatment of receivables and collection realism in revenue forecasting.

Forecast bias is another important theme. Forecasts may be biased upward due to optimism, political pressure, weak error tracking, or institutional habits. Bias can also be downward if managers seek to create hidden reserves or avoid scrutiny, though upward bias is more commonly discussed in fragile PFM environments. The literature recommends systematic forecast evaluation: comparing forecast errors over time, investigating their causes, and adjusting methods accordingly. Transparent error analysis disciplines both analysts and decision-makers.

2.7 Own-Source Revenue, Arrears, and the Cash Dimension

Own-source revenue is often celebrated as a marker of local fiscal autonomy, yet in many African local governments it remains small relative to transfers and donor funds. The practical importance of own-source revenue lies not only in its size but also in its flexibility. Unlike many earmarked grants, local revenues can support administrative costs and locally determined priorities. However, the collection of these revenues is often undermined by outdated taxpayer registers, poor valuation rolls, weak billing systems, political interference, low enforcement, and historical arrears.

The literature on subnational revenue administration stresses that receivables are not neutral accounting items. Large debtors represent delayed cash, uncertain realisation, and administrative weakness. If councils continue to recognise large receivables without writing off irrecoverable balances, segmenting debtors, or updating collection probabilities, the budget may overestimate the spendable resource base. In this sense, receivables management is both a revenue administration issue and a forecasting issue. A budget based on theoretical entitlements rather than realistic collections is vulnerable from the outset.

2.8 IFMIS, Cash Management, and Commitment Control

Integrated Financial Management Information Systems are widely promoted as tools to improve budget control, transaction processing, reporting, and transparency. The literature shows that IFMIS can enhance public financial management by automating budget checks, reducing manual errors, improving visibility of transactions, and supporting timely reporting. However, IFMIS is not a stand-alone solution. Its effect depends on the quality of setup, user discipline, connectivity, data integrity, and enforcement of business rules. An entity may use IFMIS for recording transactions while still making poor planning or commitment decisions outside the system.

Commitment control is particularly important for budget adherence. A commitment occurs when the government enters into an obligation to spend, such as issuing a purchase order or signing a contract. If commitments are allowed to exceed approved budgets or realistic cash availability, arrears and budget deviations become likely. Effective commitment control requires accurate budget balances, timely information on cash releases, supervisory review, and disciplined procurement planning. The literature notes that in contexts with volatile transfers or grant disbursements, commitment control should be linked to cash-flow forecasts rather than annual budgets alone. This is because a council may have a lawful annual appropriation but still lack the monthly cash needed to honour commitments.

2.9 Budget Deviations in Decentralised Governments

Empirical research on decentralised budgeting repeatedly identifies three broad sources of deviations. The first is forecasting weakness: optimistic revenue assumptions, inadequate treatment of uncertainty, and poor linkages between recurrent and development budgeting. The second is execution weakness: poor procurement planning, weak commitment controls, slow project implementation, lack of variance analysis, and weak internal audit follow-up. The third is external volatility: late or unpredictable transfers, donor conditionality, inflation, and shocks such as natural disasters or commodity-price changes. These factors can interact. For example, if transfers are delayed but commitment controls are weak, a forecasting problem quickly becomes an arrears problem.

The composition dimension of deviations is especially significant in local governments because district budgets contain multiple funds and sector mandates. Funds may be reallocated toward politically urgent, administratively easier, or cash-ready activities while more complex development projects lag. Such reallocation can preserve headline spending performance but reduce the developmental impact of the budget. The literature therefore encourages analysts to look beyond total spending and to investigate where the deviations occur.

2.10 Empirical Evidence from International Studies

International studies generally support the proposition that good internal controls and realistic forecasting improve budget credibility. Comparative analyses of PFM systems show that countries with stronger budget institutions, more disciplined execution controls, and better-quality revenue forecasts tend to exhibit smaller deviations between approved budgets and outturns. Research on municipal finance has similarly shown that forecasting accuracy improves when governments combine historical analysis with administrative intelligence and when they systematically monitor forecast error. Studies on internal control in public entities frequently report positive associations between strong control environments, risk management, active internal audit, and financial reporting quality.

At the same time, the international literature cautions that reforms do not automatically translate into better outcomes. Some governments adopt sophisticated control frameworks but struggle with implementation because of limited skills, fragmented systems, or weak incentives. This finding reinforces the importance of context-specific diagnosis at council level.

2.11 Evidence from Africa and Sub-Saharan Africa

Studies from Sub-Saharan Africa emphasise revenue volatility, donor dependence, and implementation capacity as recurring constraints on budget credibility. In many local governments, own-source revenue remains weak, intergovernmental transfers are delayed, and project funds are tied to compliance conditions. Audit reports often identify similar weaknesses across countries: unsupported payments, weak stores and asset controls, procurement irregularities, inadequate reconciliations, and weak follow-up of internal audit recommendations. These weaknesses increase the probability that execution departs from plan.

Research on African local government finances also stresses the political economy of enforcement. Property rates, licence fees, and market charges are often difficult to collect where local elites resist payment or where councils lack up-to-date taxpayer information. Consequently, forecasting based on legal entitlements rather than demonstrated collection patterns tends to be optimistic. Hybrid forecasting methods that explicitly adjust for collection efficiency and timing are therefore frequently recommended.

2.12 Malawi-Specific Literature and Policy Context

Malawi's decentralisation and local government framework provides the institutional setting for this dissertation. The Local Government Act establishes councils as bodies responsible for local governance, development planning, resource mobilisation, and service delivery. The National Local Government Finance Committee plays a significant role in mobilising, distributing, and overseeing resources for local authorities. This architecture means that councils operate within a hybrid fiscal environment where local discretion is shaped by central financing structures and national policy rules.

Audit and policy documents from Malawi indicate persistent PFM weaknesses that are relevant to district budgeting. National audit reports have highlighted internal control weaknesses, revenue irregularities, weak documentation, procurement non-compliance, misallocation of expenditure, and long-outstanding payables in public entities. These issues suggest that councils operate in a broader public-sector environment where formal reforms coexist with continuing implementation challenges. National efforts to adopt IPSAS and improve reporting have strengthened the technical basis for analysis, but the repeated recurrence of control findings suggests that compliance and enforcement remain uneven.

In the context of district councils, the practical literature in Malawi often focuses on decentralisation finance, service delivery, and donor-funded local development rather than specifically on the joint influence of internal controls and revenue forecasting on budget adherence. This gap is important. Many studies discuss resource inadequacy in general terms, but fewer examine how the internal mechanics of budgeting and control produce the observed deviations at council level.

2.13 Synthesis of the Literature

The literature reviewed points to a coherent analytical conclusion. Budget credibility is the product of both planning realism and execution discipline. Internal controls matter because they determine whether spending is properly authorised, recorded, monitored, and corrected. Revenue forecasting matters because it sets the resource assumptions on which the budget is built. In subnational governments characterised by donor dependence and narrow own-source revenue, the interaction between these two dimensions becomes decisive. Strong controls can reduce the damage caused by forecasting errors by slowing commitments and triggering corrective action; conversely, realistic forecasting reduces the strain placed on controls by avoiding inflated expenditure ceilings.

The literature also shows that aggregate variance is an incomplete measure of adherence. Composition deviations, cash shortfalls, receivables, and payables provide additional insight into whether the budget remained a meaningful guide during execution. In this dissertation, those complementary indicators are essential because Salima District Council's 2022/23 budget-versus-actual schedule suggests low aggregate deviation while the financial statements reveal deficits, liquidity stress, and dependence on external inflows.

2.14 Research Gap

A clear gap emerges from the reviewed literature. First, there is limited council-level evidence in Malawi that integrates internal control systems and revenue forecasting as joint determinants of budget adherence. Second, many discussions of local government finance rely on broad descriptive accounts of decentralisation rather than close analysis of audited financial evidence. Third, the literature often discusses budget credibility at national level, whereas district councils face distinctive combinations of small own-source revenue, donor concentration, multi-fund execution, and capacity constraints. This dissertation addresses that gap by using documentary evidence, survey data, and qualitative accounts to analyse Salima District Council in depth.

2.15 Chapter Summary

This chapter has shown that budget adherence is an important but multidimensional public financial management outcome. Theoretical perspectives from principal–agent theory, institutional theory, contingency theory, and resource dependence theory all help explain why district budgets deviate from plan. The review further demonstrates that internal control systems, internal audit, cash management, and revenue forecasting are mutually reinforcing components of budget credibility. The next chapter outlines the methodology used to investigate these relationships at Salima District Council.

Chapter Three: Methodology

3.1 Introduction

This chapter explains the methodological approach used to examine the influence of internal control systems and revenue forecasting on budget adherence at Salima District Council. It covers the research philosophy, design, study site, population, sampling procedures, data sources, instruments, variable operationalisation, data analysis procedures, validity and reliability considerations, ethical safeguards, and study limitations.

3.2 Research Philosophy and Approach

The study was informed by a pragmatic research philosophy. Pragmatism is appropriate when the research problem requires both numerical assessment and contextual interpretation. In the present case, budget adherence can be measured through documentary evidence such as revenue outturns, expenditure variances, deficits, cash balances, receivables, and payables. However, the reasons behind those outcomes are embedded in organisational processes, attitudes, incentives, and informal practices that are best understood qualitatively. A pragmatic stance therefore justified the use of a mixed-methods approach and allowed the study to select methods that were most useful for answering the research questions rather than being confined to a single epistemological tradition.

The study also adopted a deductive-inductive blend. Deductively, it was guided by hypotheses derived from the literature: that stronger internal controls and more realistic forecasting are associated with better budget adherence. Inductively, it remained open to themes emerging from interviews and documentary review, especially regarding the mechanisms through which these factors interact in a district council setting.

3.3 Research Design

A convergent parallel mixed-methods design was used. In this design, quantitative and qualitative data are collected during the same general phase of the research process, analysed separately, and then integrated at the interpretation stage. This design was suitable for several reasons. First, the study sought both measurement and explanation. Documentary and survey data could indicate the extent of budget deviations and perceptions of control effectiveness, while interviews could explain why those deviations occurred and how officers experienced them. Second, using multiple data sources enhanced triangulation. Budget adherence is a sensitive organisational topic; reliance on only one source might understate or exaggerate problems. Third, convergence between strands could strengthen confidence in the findings, while divergence could reveal important nuances.

3.4 Study Area and Institutional Context

The study was conducted at Salima District Council in Malawi. The council operates as a district-level public entity responsible for local planning, implementation coordination, and service delivery support within the legal framework of decentralised governance. Its financing structure includes central government transfers, donor funds, and own-source revenues such as property rates, fees, licences, and exchange transactions. This makes the council an analytically useful site for investigating the relationship between internal control systems, forecasting, and budget adherence. The council has formal planning, finance, procurement, and internal audit functions and uses public financial management systems that provide documentary evidence for analysis.

3.5 Target Population

The target population comprised officers involved directly or indirectly in budget preparation, revenue administration, expenditure management, procurement, planning, and control. This included staff from the finance department, planning department, revenue section, procurement unit, internal audit, and selected programme or sector units that interact with budget execution. These officers were chosen because they possess relevant knowledge about forecasting practices, control procedures, and the realities of executing the council's budget.

3.6 Sampling Procedures and Sample Size

The study used a combination of stratified random sampling and purposive sampling. For the questionnaire survey, stratified random sampling was used to ensure representation from the main functional areas relevant to the study. The final survey sample comprised 30 officers, reflecting the number already indicated in the draft dissertation and considered sufficient for a council-level exploratory mixed-methods study. Stratification reduced the risk that the survey would be dominated by a single department and helped capture different perspectives on control and forecasting.

For the qualitative strand, purposive sampling was used to select key informants with specialised knowledge of budgeting and execution processes. These included senior officers or focal persons in finance, planning, revenue administration, procurement, and internal audit. Purposive selection was appropriate because not all employees are equally knowledgeable about budget preparation and control. The goal of the interviews was depth rather than numerical representativeness.

3.7 Data Sources

The dissertation relied on both primary and secondary data.

Primary data consisted of questionnaire responses and key informant interviews. The questionnaire captured perceptions of the strength of internal control components, the nature of revenue forecasting practices, the use of reports and monitoring tools, and the observed causes of budget deviations. Interviews explored similar themes in greater depth, including how forecasts are actually prepared, how reallocation decisions arise, how receivables are managed, the practical role of IFMIS, and how internal audit recommendations are handled.

Secondary data consisted of audited financial statements for FY2021/22 and FY2022/23, budget-versus-actual schedules for FY2022/23, revenue and expenditure composition schedules, receivables and payables profiles, donor schedules, and the FY2026/27 cash-flow planning template. These documents provided objective evidence on revenue structure, expenditure patterns, deficits, liquidity, and composition deviations. They were particularly valuable because they moved the study beyond perception and into financially verifiable patterns.

3.8 Research Instruments

3.8.1 Questionnaire

The questionnaire was structured into four sections. Section A collected demographic information such as department and role. Section B assessed internal control systems using items aligned to the COSO components: control environment, risk assessment, control activities, information and communication, and monitoring. Section C examined revenue forecasting practices, including data use, method selection, treatment of arrears, and review of forecast error. Section D focused on budget adherence and monitoring, asking respondents to indicate the frequency and causes of variances, the quality of reporting, and the adequacy of corrective action.

Most attitudinal items were framed using a Likert-type response structure to allow aggregation of perceptions. This format was appropriate because it captures relative strength or weakness while remaining simple enough for officers with different roles to complete accurately.

3.8.2 Interview Guide

A semi-structured interview guide was used for key informant interviews. The guide covered the budget preparation process, forecasting methods for own-source revenue and external funds, risk identification during execution, internal audit arrangements, IFMIS usage, causes of variances, and practical obstacles to budget adherence. Semi-structured interviews were chosen because they provide consistency across respondents while allowing the interviewer to probe for examples, explanations, and undocumented practices.

3.8.3 Documentary Review Template

A documentary extraction template was used to organise numerical and textual evidence from the financial statements and related schedules. The template captured revenue categories, expenditure categories, variances, deficits, cash balances, receivables, payables, and qualitative notes from audit-related documents. This ensured systematic extraction and facilitated comparison across years.

3.9 Operationalisation of Variables

The dependent variable was budget adherence. It was operationalised using several indicators: aggregate variance between approved and actual receipts/expenditure, composition variance across major expenditure functions, deficit trends, year-end cash movements, operating cash-flow trends, and indicators of fiscal stress such as receivables and payables. The multidimensional operationalisation was intentional because a single variance percentage would not capture the practical credibility of the budget.

The first main independent variable was internal control systems. This variable was operationalised through the COSO dimensions. Control environment was reflected in ethical tone, accountability, and clarity of responsibilities. Risk assessment was reflected in whether the council systematically identifies and reviews budget risks. Control activities were reflected in approvals, reconciliations, segregation of duties, and commitment checks. Information and communication were reflected in the timeliness and usefulness of reports. Monitoring was reflected in supervisory review, internal audit activity, and follow-up on findings.

The second main independent variable was revenue forecasting. This was operationalised through the forecasting method used (incremental, judgmental, hybrid), the use of historical data, the treatment of receivables and collection ratios, the treatment of donor and transfer timing, and whether forecast errors were tracked and reviewed.

3.10 Data Collection Procedures

Permission to use institutional documents and to engage staff was sought through appropriate administrative channels. After permission was granted, the questionnaire was distributed to selected officers and collected after completion. Interviews were scheduled with key informants at times convenient to their official duties. Notes were taken during interviews, and where consent was obtained, responses were also recorded for accuracy in later transcription.

Documentary data were obtained from the council records available to the researcher and from the draft dissertation package. Extracted figures were cross-checked against multiple tables to reduce transcription error. For example, revenue totals were checked against the statement of performance and the budget-versus-actual schedules where available.

3.11 Data Analysis Procedures

3.11.1 Quantitative Analysis

Quantitative analysis used descriptive statistics, ratio analysis, and variance analysis. Descriptive statistics summarised the perceptions captured by questionnaire items. Because the study was council-specific and the sample was relatively small, the emphasis was on patterns rather than inferential generalisation to a larger universe of councils.

The documentary strand involved computation and interpretation of key financial indicators. Trend analysis compared the council's revenue and expenditure structures between 2021/22 and 2022/23. Ratio analysis examined issues such as the share of donor funds in total revenue, the share of own-source revenue, the deficit as a percentage of revenue, and the composition of expenditure. Budget-versus-actual analysis identified aggregate and compositional deviations in 2022/23. Receivables and payables were analysed to assess cash realisation risk and fiscal stress.

3.11.2 Qualitative Analysis

Interview data were analysed thematically. Transcripts and notes were read repeatedly to identify recurring categories and explanatory patterns. Codes were developed around the COSO/INTOSAI constructs and the study's substantive interests, including tone at the top, risk assessment, audit follow-up, cash management, forecasting method, receivables enforcement, donor timing, and variance response. Themes were then refined to explain how internal controls and forecasting practices influenced adherence in practice.

3.11.3 Integration of Findings

The two strands were integrated at the interpretation stage using convergence and complementarity logic. Where documentary evidence and interview evidence pointed in the same direction, the finding was treated as reinforced. Where they diverged, the discrepancy itself became analytically important. For example, an officer might describe controls as existing, while the documents might reveal persistent receivables and composition deviations that indicate weak practical effectiveness. Integration therefore moved beyond simple confirmation to a more nuanced explanation of organisational realities.

3.12 Validity, Reliability, and Trustworthiness

The study pursued validity and reliability in several ways. First, content validity of the questionnaire was supported by aligning internal control items with established COSO and INTOSAI dimensions. Forecasting items were derived from revenue administration and budgeting concepts established in the literature. Second, triangulation enhanced construct validity by combining documentary evidence, surveys, and interviews. Third, cross-checking of numerical data reduced the possibility of extraction errors.

Reliability in the qualitative strand was supported through the use of a semi-structured interview guide and a transparent coding framework. Trustworthiness was enhanced through prolonged engagement with the documents, attention to disconfirming evidence, and maintenance of an audit trail of extracted figures and themes. The purpose was not to claim statistical universality but to produce a credible, evidence-based account of the council's budgeting dynamics.

3.13 Ethical Considerations

Ethical principles were observed throughout the study. Participation in the survey and interviews was voluntary. Respondents were informed about the academic purpose of the research and assured that their individual responses would be treated confidentially and used only for research purposes. The dissertation reports findings at an institutional and thematic level rather than in a way that unnecessarily exposes individual respondents. Documents used for analysis were handled responsibly, and any unpublished internal materials were used strictly for academic analysis.

3.14 Limitations of the Methodology

The study has several limitations. First, it focuses on a single district council, which limits external generalisation. However, the aim is analytical depth rather than broad statistical generalisation. Second, some earlier-year detailed budget-versus-actual schedules were not available in the same detail as 2022/23, which constrained multi-year composition analysis. Third, the survey sample size was appropriate for an exploratory mixed-methods case study but not for highly sophisticated statistical modelling. Fourth, the council's revenue and expenditure patterns are influenced by donor timing and central transfers, factors that are partly external to council management. Rather than weakening the study, this limitation reinforces the importance of examining how internal controls and forecasting respond to external volatility.

3.15 Chapter Summary

This chapter has described the pragmatic, convergent mixed-methods design used in the study. The next chapter presents the results and findings from the documentary review, survey insights, and qualitative interviews.

Chapter Four: Results and Findings

4.1 Introduction

This chapter presents the empirical findings of the study. It begins with documentary evidence from the audited financial statements and budget-versus-actual schedules, then incorporates survey and interview themes to explain how internal controls and revenue forecasting shaped those outcomes. The intention is not merely to describe financial numbers, but to show what they imply about the council's budget credibility.

4.2 Revenue Structure and Revenue Trends

The financial statements show that total revenue almost doubled from MWK 3,692,921,015 in 2021/22 to MWK 7,247,508,041 in 2022/23. The expansion, however, was not driven mainly by stronger own-source revenue mobilisation. Instead, it came overwhelmingly from donor funding and, to a lesser extent, central government transfers. Donor funds rose from MWK 1,816,649,557 to MWK 5,056,595,737, while central transfers increased from MWK 1,497,807,694 to MWK 1,847,724,348.

The structure of revenue is analytically more revealing than the total. In 2022/23, donor funds represented approximately 69.77% of total revenue and central transfers 25.49%. Together, these two sources constituted about 95.26% of total revenue. Own-source revenue, defined here as property rates, fees and licences, exchange transactions, and other local revenue, amounted to only MWK 343,187,956, equivalent to about 4.74% of total revenue. This demonstrates a council whose resource envelope is overwhelmingly shaped by funds outside its direct control.

Such concentration has important implications for forecasting and budget adherence. Where most resources are externally determined, the council's approved budget becomes highly sensitive to release timing, compliance conditions, procurement progress, and donor implementation requirements. In these circumstances, forecasting cannot rely only on annual commitments or approved ceilings; it must also ask when cash is likely to materialise and what conditions may delay its use.

The detailed composition of own-source revenue also reveals mixed performance. Property rates declined slightly between the two years, suggesting either collection weakness, billing issues, or a difficult compliance environment. By contrast, fees, fines, penalties, and licences increased substantially, while exchange transactions expanded from a low base. The own-source revenue pattern is therefore uneven and suggests that the council's local revenue base is narrow, volatile, and potentially influenced by administration and enforcement choices.

Table 4.1 presents the revenue composition across the two years.

Revenue item	FY2021/22 (MWK)	FY2022/23 (MWK)	Change (MWK)	Change (%)
Property rates	110,685,786	102,194,501	-8,491,285	-7.67
Fees, fines, penalties & licences	116,534,270	169,166,150	52,631,880	45.16
Exchange transactions	16,410,550	64,306,670	47,896,120	291.86
Central government transfers	1,497,807,694	1,847,724,348	349,916,654	23.36
Donor funds	1,816,649,557	5,056,595,737	3,239,946,180	178.35
Other revenue	213,405	7,520,635	7,307,230	3424.11
Total revenue	3,692,921,015	7,247,508,041	3,554,587,026	96.25

4.3 Expenditure Structure and Fiscal Stress

Total expenses increased from MWK 5,250,949,789 in 2021/22 to MWK 9,435,215,500 in 2022/23. Donor expenses increased sharply and accounted for about 49.87% of total expenses in 2022/23. Depreciation represented approximately 22.15% of total expenses, while capital outlay represented about 8.53%. Operational expenses more than doubled, whereas wages and salaries declined. The decline in wages may reflect classification changes, staffing structure, or the transfer of payroll burdens outside the council's own statements, but it nonetheless highlights the need for caution when interpreting year-to-year movement solely as managerial performance.

The most important overall fiscal finding is that strong revenue growth did not eliminate fiscal stress. In 2021/22 the council recorded a deficit of MWK 1,558,028,774. In 2022/23 the deficit worsened in nominal terms to MWK 2,187,707,459. As a share of revenue, the deficit ratio improved from 42.19% to 30.19% because revenue grew rapidly; however, this apparent improvement should not be read as a clean sign of stronger fiscal health. Operating cash flow turned from positive MWK 353,098,483 in 2021/22 to negative MWK 52,652,811 in 2022/23, and year-end cash declined from MWK 483,971,468 to MWK 413,428,443. In other words, the council's statement of performance shows growth, but the cash-flow statement shows pressure.

This combination matters for budget adherence. A budget may appear manageable on a total annual basis yet still be difficult to execute if cash arrives late or obligations are incurred earlier than real inflows. In such cases, budget discipline depends critically on commitment controls, monthly cash planning, and prioritisation protocols.

4.4 Budget-versus-Actual Performance in 2022/23

The budget-versus-actual schedule for 2022/23 suggests a relatively small aggregate variance. Total receipts were approved at MWK 7,144,705,060 and actual receipts were MWK 7,237,151,459, yielding a positive variance of about 1.29%. On the expenditure side, total approved expenditure was MWK 6,904,990,830 and actual expenditure was MWK 6,947,881,619, yielding an aggregate variance of about 0.62%. At first glance, this might suggest strong budget adherence.

However, aggregate variance is only part of the story. Once expenditure composition is examined, a different picture emerges. General public services exceeded the approved budget by approximately 71.86%. Development expenses under CDF/IDF/DDF/Borehole categories exceeded the approved amount by about 43.49%. Agriculture spending also exceeded the approved amount by 12.65%. By contrast, donor expenses were below approved budget by about 6.95%. Education and health were relatively close to plan. These figures indicate significant composition deviations within what appears to be a disciplined aggregate envelope.

This pattern is consistent with in-year reallocation pressure. The council broadly remained within total spending limits but shifted resources across functions during execution. Such shifts may occur because some projects are more cash-ready, some sectors face urgent commitments, some donor-funded activities progress slower than expected, or management responds to emergent pressures. Whatever the proximate reason, the finding is important because it means that headline budget adherence masked redistribution away from the original expenditure pattern.

4.5 Receivables and Payables

The receivables schedule shows that the council had notable long-term debtors in 2022/23. Among the largest were Malawi Mangoes (MWK 57,515,921), Salima District Hospital (MWK 14,754,040), Salima District Agriculture Development Office (MWK 13,314,522), Central East African Railways (MWK 13,230,551), China Africa (MWK 12,682,566), Salima Town Council (MWK 11,583,184), and Kalonga Primary School (MWK 11,541,154). The concentration of debt among a relatively small number of debtors suggests that receivables management should be a strategic priority rather than a routine clerical task.

Large receivables matter in two ways. First, they reduce actual cash available for execution even when revenue is legally due. Second, if forecasts are built on billed amounts rather than expected collections, they can produce unrealistic expenditure ceilings. This is especially relevant in a council where own-source revenue is small in relation to total resources. A small absolute under-collection of local revenue may still disrupt flexible expenditure because those revenues are often among the least earmarked funds.

Current payables also show fiscal pressure. Total current payables amounted to MWK 118,714,774, including large utility obligations such as water bills and electricity bills. Utility arrears are important because they indicate weak commitment planning, incomplete budget protection for unavoidable costs, or delayed cash release. They may also crowd out discretionary spending in subsequent periods.

4.6 Survey Findings on Internal Control Systems

The survey and interview evidence indicates that staff generally perceive the council to have a formal control structure, but not all components operate with equal strength. The strongest area is the presence of basic control activities such as authorisation routines, budgeting formats, and procedural steps for expenditure processing. Respondents were broadly aware of the need for approvals, supporting documents, and supervisory review. Similarly, information and communication structures were seen as present in the sense that reports exist and officers know who is supposed to receive them.

However, two control dimensions emerged repeatedly as comparatively weak: risk assessment and monitoring. Respondents indicated that risks to revenue collection, donor timing, and budget execution are not always documented in a structured way or reviewed systematically at regular intervals. Instead, risk management often appears reactive, surfacing when cash is already tight or when implementation problems have already occurred. Monitoring was also described as uneven. Reports may be produced, but corrective action and follow-up are not always timely or consistent. Internal audit was recognised as important, but officers noted capacity constraints and limits to enforcement of recommendations.

The control environment produced mixed perceptions. On one hand, respondents acknowledged formal expectations regarding accountability and proper procedure. On the other hand, some interviewees suggested that practical enforcement varies by issue and by department. This is consistent with a control environment that is formally defined yet not uniformly internalised.

4.7 Survey and Interview Findings on Revenue Forecasting

The dominant finding on forecasting is that the council relies heavily on incremental and judgment-based methods. Historical collections are considered, but the process is not strongly model-based and does not always systematically adjust for arrears, collection ratios, or the timing uncertainty of disbursements. Officers described the use of prior-year figures, departmental estimates, and practical knowledge of the local environment. Such an approach is understandable in a resource-constrained setting, but it also creates risk when historical data are volatile or when prior patterns reflect already weak collection performance.

For own-source revenue, interviewees indicated that billing and collections face practical challenges, including outstanding debtors and limited enforcement leverage. Forecasts may therefore reflect expected billing rather than conservative cash realisation. For donor and transfer funds, officers acknowledged the challenge of aligning annual budget assumptions with actual disbursement timing. In some cases, approved resource levels may be formally justified but not fully spendable at the expected pace.

Forecast error review appeared to be limited. Interview evidence suggested that the council compares budget to actuals, but does not always maintain a structured analysis of forecast bias by revenue stream, nor use that error analysis systematically to improve the next budget cycle.

4.8 Integrated Finding: How Controls and Forecasting Interact

The central empirical insight of the study is that control weaknesses and forecasting limitations interact. The council's narrow own-source base and dependence on external funding create genuine planning uncertainty. Yet the practical consequences of that uncertainty are amplified where risk assessment is weak, receivables are not aggressively managed, monitoring is uneven, and internal audit follow-up lacks full traction. Under these conditions, a forecast that is only moderately optimistic can still produce significant execution strain because commitments and operational expectations may not be adjusted quickly enough as real inflows materialise.

The evidence from Salima District Council shows precisely this interaction. Aggregate budget figures suggest nominal alignment, but composition deviations, deficits, negative operating cash flow, and payables reveal the stress beneath the surface. The most plausible interpretation is not that one factor alone failed, but that planning realism and execution discipline did not reinforce each other sufficiently.

4.9 Chapter Summary

The documentary evidence shows a council highly dependent on donor funds and transfers, with a weak own-source revenue base, significant receivables, and continuing fiscal stress. The qualitative evidence indicates that risk assessment, monitoring, internal audit follow-up, and cash-sensitive forecasting require strengthening. The next chapter discusses these findings in relation to the literature and develops practical recommendations.

Expenditure item	FY2021/22 (MWK)	FY2022/23 (MWK)	Change (MWK)	Change (%)
Operational expenses	613,092,600	1,247,317,089	634,224,489	103.45
Wages, salaries & benefits	159,697,874	117,928,291	-41,769,583	-26.16
Grants & transfers	123,465,628	182,175,430	58,709,802	47.55
Donor expenses	1,363,021,655	4,705,158,308	3,342,136,653	245.20
Supplies & consumables	287,724,693	281,941,269	-5,783,424	-2.01
Depreciation	2,026,165,157	2,089,573,579	63,408,422	3.13
Other expenses	154,028,363	5,859,740	-148,168,623	-96.20
Capital outlay	523,753,819	805,261,795	281,507,976	53.75
Total expenses	5,250,949,789	9,435,215,500	4,184,265,711	79.69

Indicator	FY2021/22	FY2022/23
Deficit (MWK)	1,558,028,774	2,187,707,459
Deficit as % of revenue	42.19%	30.19%
Year-end cash (MWK)	483,971,468	413,428,443
Net operating cashflow (MWK)	353,098,483	-52,652,811

Receipt item	Approved 2022/23 (MWK)	Actual 2022/23 (MWK)	Variance (MWK)	Variance (%)
Taxes (property rates)	57,531,316	99,358,555	41,827,239	72.71
Fees, fines, penalties & licences	119,438,659	169,166,150	49,727,491	41.64
Exchange transactions	63,415,000	64,306,670	891,670	1.41
Central transfers	1,847,724,348	1,847,724,348	0	0.00

Donor funds	5,056,595,737	5,056,595,737	0	0.00
Total receipts	7,144,705,060	7,237,151,459	92,446,399	1.29

Function	Approved 2022/23 (MWK)	Actual 2022/23 (MWK)	Variance (MWK)	Variance (%)
General public services	84,906,705	145,917,298	61,010,593	71.86
Development expenses (CDF/IDF/DDF/Borehole)	679,136,873	974,459,563	295,322,691	43.49
Education	422,494,379	438,832,715	16,338,336	3.87
Agriculture	78,977,300	88,964,535	9,987,235	12.65
Health	453,399,614	461,234,747	7,835,133	1.73
Donor expenses	5,056,595,737	4,705,158,308	-351,437,429	-6.95
Total expenses	6,904,990,830	6,947,881,619	42,890,789	0.62

Top long-term debtor	Amount due (MWK)	Share (%)
Malawi Mangoes	57,515,921	12.09
Salima District Hospital	14,754,040	3.10
Salima District Agriculture Dev. Office	13,314,522	2.80
Central East African Railways	13,230,551	2.78
China Africa	12,682,566	2.67
Salima Town Council	11,583,184	2.43
Kalonga Primary School	11,541,154	2.43
H. Kanyowire	10,246,030	2.15

Payables item	Amount (MWK)
Total current payables	118,714,774
Water bills	43,408,027
Electricity bills	33,500,699
Promise Holdings	14,800,044

Chapter Five: Discussion and Recommendations

5.1 Introduction

This chapter interprets the findings presented in Chapter Four and relates them to the theoretical and empirical literature reviewed in Chapter Two. It argues that Salima District Council's budget adherence challenges are best understood as the product of an interaction between revenue-side realism and expenditure-side control discipline. The chapter is organised around the main thematic issues: donor dependence and resource structure, internal control effectiveness, revenue forecasting quality, the significance of composition deviations, receivables and cash-flow management, and the implications for public financial management reform at council level.

5.2 Donor Dependence, Transfer Reliance, and the Structure of Budget Risk

One of the clearest findings from the documentary evidence is the council's high degree of external dependence. With donor funds accounting for about 69.77% of total revenue and central government transfers accounting for a further 25.49%, the council's budget is shaped overwhelmingly by funding streams over which it has limited direct timing control. This validates the relevance of resource dependence theory. A council in such a position cannot be analysed as though it were a self-financing municipal corporation with a stable local tax base. Its operational reality is that annual authorisations and expected inflows are heavily conditioned by external actors and processes.

However, resource dependence should not be interpreted as an excuse for weak adherence. Rather, it defines the risk environment to which internal controls and forecasting methods must adapt. When funding is externally concentrated, realistic budgeting requires scenario-aware cash planning and a cautious view of what can actually be executed within the year. Likewise, internal controls must be designed to prevent premature commitments against funds that are approved in principle but not yet available in cash or not yet unlocked by compliance conditions. The literature suggests this need for fit, and the Salima evidence reinforces it. In a context of external volatility, commitment control and monthly cash management become more important, not less.

The results also suggest that strong nominal growth in revenue can conceal fragility. Between 2021/22 and 2022/23 total revenue almost doubled, which on the surface could be read as an expansion of fiscal capacity. Yet because the growth was concentrated in donor funds, it did not automatically produce greater financial flexibility or resilience. A highly earmarked or timing-sensitive increase in donor inflows can increase reporting and execution complexity rather than simply expanding managerial room. This explains why the council could simultaneously report high revenue growth and still face negative operating cash flow, declining year-end cash, and pressure in certain expenditure categories.

5.3 Internal Control Systems and Budget Adherence

The findings strongly support the view that internal control effectiveness influences budget adherence. Yet the relationship is not binary. Salima District Council does not appear to lack all internal controls; rather, it exhibits an uneven control profile. Basic control activities and formal procedures exist, which helps explain why aggregate budget variance was not extreme and why the council could maintain a broadly structured financial reporting framework. At the same time, weaker risk assessment, inconsistent monitoring, and constrained internal audit follow-up reduce the practical effectiveness of the overall system.

This pattern fits the COSO argument that all five components must operate together. It is not enough to have approvals and documentation routines if the organisation does not systematically identify risks, monitor emerging deviations, and take corrective action. In fact, an overemphasis on transaction-level control activities without strong risk assessment can create a compliance façade: transactions are processed through steps, but the council still lacks a strategic grip on the factors most likely to derail budget execution. The evidence that composition deviations occurred despite low aggregate variance illustrates this problem. Transactions may have been processed lawfully, yet management did not fully preserve the approved expenditure composition.

The weakness of risk assessment is particularly significant. Interviews suggested that officers recognised practical problems such as donor timing, delayed collections, and implementation bottlenecks, but these were not always translated into formal risk registers, structured review meetings, or explicit mitigation plans. Risk assessment is often neglected because it appears less tangible than authorisation or voucher review. Yet in budgeting it is foundational. If the council fails to identify its key revenue and execution risks at the start of the year, it will struggle to align procurement sequencing, commitment authorisations, and contingency planning with actual conditions.

Monitoring also emerged as a critical weakness. Reports may exist, but reporting alone is not monitoring. Monitoring requires comparison, interpretation, escalation, and action. The findings suggest that management information did not always translate into timely correction. This aligns with literature showing that budget institutions fail when information and action are decoupled. In practical terms, delayed response to deviations allows small forecasting or implementation problems to compound into reallocation pressure, arrears, or underperformance in specific functions.

5.4 Internal Audit: Presence Versus Influence

The study's findings on internal audit illustrate a broader issue in public financial management reform: the difference between institutional presence and institutional influence. Salima District Council has an internal audit function, and respondents recognised its importance. However, the evidence also points to capacity and follow-up limitations. Internal audit can only strengthen budget adherence if its recommendations are timely, targeted to material risk areas, and acted upon by management.

In councils facing volatile funding and substantial development expenditure, internal audit should go beyond ex post compliance checking. A risk-based internal audit programme would prioritise areas where budget credibility is most likely to be compromised: receivables, utility arrears, development fund controls, procurement lead times, and unsupported commitments. If internal audit remains narrowly focused on retrospective transaction review, it may document recurring weaknesses without altering budget outcomes. This is particularly relevant where staff shortages or resource constraints limit coverage.

The discussion therefore suggests that the problem is not the idea of internal audit but its operational leverage. The council would benefit from a more structured audit issue-tracking system, stronger management response deadlines, and periodic reporting to a body or forum that can compel follow-up. This would shift internal audit from being primarily a detector of weaknesses to being an active contributor to corrective action.

5.5 Revenue Forecasting and the Realism of the Budget Envelope

The evidence supports the second hypothesis: more realistic revenue forecasting is associated with better budget adherence. At Salima District Council, the principal forecasting challenge is not simply technical model choice but the alignment of forecast assumptions with cash-realisation realities. Own-source revenue is limited and constrained by receivables. Donor funds and transfers are large but timing-sensitive. Under such conditions, a budget can look balanced on paper while still being difficult to execute in practice.

The council's reliance on incremental and judgment-based forecasting is understandable given data and capacity constraints. In many local governments, highly sophisticated forecasting models are neither feasible nor necessarily superior. However, the issue is not that simple methods are used; it is that the current method appears insufficiently disciplined by collection ratios, arrears analysis, and explicit timing assumptions. When forecasts reflect what is due, expected, or hoped for rather than what is realistically collectible and spendable within the period, the approved budget becomes vulnerable. This is especially damaging when spending units treat the approved figures as operationally available ceilings.

The literature on forecast bias suggests that institutions improve when they routinely analyse the difference between forecast and outturn, disaggregate errors by source, and revise methods accordingly. The findings indicate that Salima District Council compares budgets and actuals, but forecast error analysis is not yet sufficiently systematic. Without such a learning loop, incremental forecasting can become path dependent: the council adjusts previous figures without fully understanding why the previous estimate was too high or too low.

A further implication concerns the distinction between annual authorisation and monthly executability. Even where the total annual resource estimate is broadly correct, timing mismatches can produce liquidity stress. This is visible in the study's finding that the council recorded modest aggregate variance but negative operating cash flow and lower year-end cash. Forecast realism therefore needs to operate at two levels: annual budget estimation and intra-year cash forecasting. The latter is often neglected, yet in externally dependent councils it is indispensable.

5.6 Composition Deviations and the Limits of Aggregate Compliance

Perhaps the most conceptually important finding in this dissertation is that aggregate budget adherence masked material composition deviations. General public services and development expenditures exceeded the approved budget substantially, while donor expenses fell below plan. This means the council broadly contained total spending but did not maintain the original pattern of allocations. From a budget credibility perspective, this matters greatly.

The literature warns that aggregate adherence alone can provide a false sense of discipline. If a council overspends in politically visible or administratively easier areas while under-executing harder-to-implement development or donor-linked activities, the budget loses credibility as a representation of approved priorities. This appears to be part of the Salima story. Some sectors such as health and education remained relatively close to plan, but large deviations in general public services and development categories suggest reallocation pressure and uneven implementation capacity.

Composition deviations may arise for several reasons. One explanation is differential absorptive capacity: some projects or departments may be better prepared to spend. Another is urgency: utility bills, administrative costs, or politically salient activities may receive protection at the expense of less immediate but equally authorised priorities. A third is donor implementation dynamics: where donor-funded activities require procurement steps, counterpart actions, or reporting conditions, their execution may lag, creating space or pressure for other categories to overrun. Whatever the mix, the implication is clear: management should not judge budget performance solely by the low total variance. The functional pattern of spending must also be reviewed regularly.

5.7 Receivables, Payables, and the Cash-Flow Transmission Mechanism

Receivables and payables provide an important bridge between forecasting and controls. The council's notable receivables indicate that legally due revenue does not automatically translate into cash. At the same time, current payables, especially utilities, indicate that essential obligations can accumulate when cash planning and commitment control are weak or when inflows arrive unpredictably. Together, these balances reveal the cash-flow transmission mechanism through which budget credibility is weakened.

The existence of significant receivables implies that local revenue forecasts should be discounted by realistic collection ratios. Not all debtors are equal. Some are government entities, some are private firms, and some may be long outstanding or legally contentious. A sophisticated local government forecast should segment debtors, estimate likely realisation, identify high-risk arrears, and separate collectable balances from doubtful ones. Without this discipline, the revenue side of the budget becomes inflated.

On the expenditure side, payables reveal whether the council is living within executable means. Utility arrears are often symptoms of weak expenditure prioritisation because utilities are predictable and unavoidable. If they accumulate, this suggests that cash planning did not adequately protect mandatory costs or that commitments elsewhere crowded them out. The presence of both receivables and payables therefore supports the dissertation's central argument: the budget problem is not purely one of low resources but one of translating entitlements and authorisations into cash-consistent execution.

5.8 Linking the Findings to the Theoretical Framework

The findings fit the theoretical perspectives outlined earlier. Principal–agent theory helps explain why forecasting may remain optimistic and why monitoring weaknesses matter. In a setting where principals cannot closely observe how forecasts are constructed or why reallocations occur, agents retain room to present budgets that are more attractive than executable. Institutional theory explains the coexistence of formal controls and uneven implementation. Salima District Council appears to have formal procedures and structures, but not all of them function with equal depth. Contingency theory is reflected in the mismatch between the council's risk environment and the maturity of its forecasting and monitoring systems. A council that derives over 95% of revenue from donors and transfers requires highly cash-sensitive control processes, yet the evidence suggests that some practices remain incremental and reactive. Resource dependence theory is confirmed by the dominant influence of external funding on the council's risk profile.

Taken together, these theories do not compete; they complement one another. They show that budget adherence at district level is shaped simultaneously by incentives, formal institutions, contextual fit, and dependency structure.

5.9 Policy and Managerial Implications

The findings have several practical implications for public financial management reform in Malawi's local governments. First, reform agendas should place greater emphasis on budget credibility as a combined planning-and-execution outcome. Councils need support not only in preparing budgets but also in managing them dynamically through the year. Second, internal controls should be assessed not only by the existence of procedures but by whether they preserve compositional integrity, prevent avoidable arrears, and align commitments with realistic cash flows. Third, revenue forecasting reforms should focus on achievable improvements rather than unrealistic technical sophistication. A hybrid approach that combines historical trends, local intelligence, collection ratios, and timing assumptions is likely to be more useful than either pure judgment or pure extrapolation.

Fourth, receivables management should be treated as a strategic fiscal issue. Where own-source revenue is small, every kwacha of collectable debt matters disproportionately for flexible spending. Fifth, internal audit should be repositioned toward risk-based assurance with stronger follow-up pathways. Sixth, donor dependence requires councils to integrate grant conditions and disbursement timing into budget execution rules. It is not enough to budget donor funds annually; councils must also align procurement and commitments with expected release patterns.

5.10 Recommendations

Based on the evidence and discussion, the dissertation makes the following recommendations.

5.10.1 Establish a Risk-Based Budget Control Framework

The council should institutionalise quarterly risk identification and review linked specifically to the budget. A practical risk register should capture the major threats to execution, including delayed donor disbursements, under-collection of own-source revenue, utilities overruns, procurement delays, outstanding debtors, and unsupported commitments. Each risk should have an owner, mitigation action, and review date. This would strengthen the weakest control component identified in the study and create a bridge between planning and execution.

5.10.2 Introduce Monthly Variance Dashboards and Formal Corrective Action

Finance and planning units should jointly produce monthly dashboards showing receipts, expenditure, commitments, forecast revisions, arrears, key debtors, and functional variances. The dashboard should highlight thresholds for escalation. For example, where a function exceeds 10% variance or where collections fall below a specified realisation ratio, a corrective action note should be prepared for management. This would turn reporting into active monitoring.

5.10.3 Strengthen Internal Audit Independence, Coverage, and Follow-up

The council should resource internal audit to undertake risk-based reviews of the areas most likely to affect budget credibility: development funds, utility costs, receivables, procurement lead times, and commitment controls. An audit issue-tracking log should be introduced to record findings, responsible officers, due dates, and closure status. Senior management should review the log regularly. Where possible, the internal audit function should have protected access to management forums to ensure that recommendations are not treated as optional.

5.10.4 Adopt Hybrid Revenue Forecasting Anchored in Cash Realisation

Revenue forecasting should be reformed in a pragmatic rather than overly technical manner. For own-source revenue, the council should combine historical collection trends with debtor segmentation, collection ratios, and local intelligence on compliance conditions. Large debtors should be analysed individually rather than rolled into a single assumption. For external funds, the council should distinguish between approved allocations and expected release schedules. Forecasts should be updated quarterly to reflect realised disbursement patterns. This would make the budget envelope more executable.

5.10.5 Institutionalise Forecast Error Analysis

At the end of each quarter and at year-end, the council should compare forecast and actual revenue by stream and record the error rate, probable causes, and implications for the next cycle. This learning process would progressively improve forecasting discipline and reduce institutional optimism.

5.10.6 Improve Receivables Management

The council should classify debtors by amount, age, and recovery probability. High-value debtors should be assigned case-specific recovery plans, including reminders, negotiated payment schedules, administrative enforcement, and legal escalation where appropriate. Irrecoverable balances should be formally reviewed in accordance with applicable rules to avoid distorting the revenue base indefinitely. A standing monthly debtor review meeting could be introduced to monitor progress.

5.10.7 Tighten Cash-Flow Planning and Commitment Control

The FY2026/27 cash-flow template discipline should be operationalised as a monthly execution tool rather than a planning formality. Commitments should be aligned to realistic monthly inflows, especially for development and donor-funded activities. Where disbursement timing is uncertain, the council should avoid front-loading commitments. Utility and other mandatory costs should be explicitly ring-fenced in the monthly cash plan to reduce arrears.

5.10.8 Enhance Cross-Functional Coordination

Budget credibility is weakened when finance, planning, procurement, revenue administration, and user departments operate in silos. The council should therefore establish a monthly budget execution meeting bringing together these units to review the dashboard, disbursements, commitments, procurement status, and key control issues. This would improve information flow and support faster response to emerging pressures.

5.11 Implementation Roadmap

A phased approach is advisable. In the first three months, the council should introduce the risk register, monthly dashboard, and debtor segmentation list. Within three to six months, it should revise the revenue forecasting template to incorporate collection ratios and release timing assumptions, and launch the audit issue-tracking log. Within six to twelve months, it should embed risk-based internal audit coverage, strengthen commitment controls in IFMIS, and evaluate the first round of forecast error reports. This sequencing recognises capacity limits while still creating visible reform momentum.

5.12 Chapter Summary

This chapter has shown that Salima District Council's budget adherence challenges are not explained by a single defect. They arise from the intersection of external funding dependence, optimistic or insufficiently cash-sensitive forecasting, weak risk assessment, uneven monitoring, constrained internal audit follow-up, and inadequate attention to receivables and commitment timing. The final chapter summarises the dissertation and states the main conclusions.

Chapter Six: Conclusion

6.1 Introduction

This final chapter summarises the study, states the major conclusions, highlights the contribution of the dissertation, and proposes areas for further research.

6.2 Summary of the Study

The purpose of the study was to examine the influence of internal control systems and revenue forecasting on budget adherence at Salima District Council. The study was motivated by the observation that local government budgets in Malawi often face execution difficulties despite ongoing public financial management reforms. Using a convergent mixed-methods design, the dissertation combined documentary analysis of audited financial statements and budget schedules with survey and interview evidence from council officers.

The documentary findings showed that the council's fiscal structure is dominated by external resources. In 2022/23, donor funds and central government transfers together constituted approximately 95.26% of total revenue, while own-source revenue accounted for only about 4.74%. Expenditure was also strongly shaped by donor-funded spending. Although aggregate budget variance in 2022/23 was relatively modest, there were significant composition deviations in general public services and development expenditure. The council recorded a sizable deficit, negative operating cash flow, declining year-end cash, and notable receivables and payables.

The qualitative findings indicated that formal internal controls exist but are uneven in effectiveness. Risk assessment and monitoring emerged as the weakest control areas. Internal audit was recognised as valuable but constrained by capacity and follow-up challenges. Revenue forecasting was found to rely mainly on incremental and judgment-based methods with limited use of structured forecast error analysis and insufficient adjustment for collection risk and cash realisation.

6.3 Main Conclusions

First, the study concludes that effective internal control systems are positively associated with improved budget adherence, but their effect depends on the balance and integration of all control components. Basic control activities alone are not enough. The weaknesses observed in risk assessment and monitoring substantially reduced the capacity of the council to preserve budget composition and respond early to emerging variances.

Second, the study concludes that revenue forecasting quality matters for budget credibility. Forecasts that are not adequately anchored in cash-realisation assumptions, debtor recovery prospects, and disbursement timing create spending plans that are difficult to execute. This is especially true in a council whose own-source revenue is small and whose total budget is heavily dependent on donor and transfer flows.

Third, the study concludes that weak internal controls and forecasting limitations interact rather than operate separately. Optimistic or weakly specified revenue forecasts place pressure on execution. Where monitoring, receivables management, internal audit follow-up, and commitment control are also weak, budget deviations become more likely and more consequential.

Fourth, the study concludes that aggregate budget variance is an insufficient measure of budget adherence. Salima District Council's low total variance in 2022/23 did not imply full credibility because material composition deviations, liquidity stress, and fiscal imbalances remained present. Budget credibility should therefore be judged using aggregate, compositional, and cash-flow indicators together.

6.4 Contribution of the Dissertation

The dissertation contributes to the study of local government finance in Malawi in three ways. First, it provides a council-level case study grounded in audited financial evidence rather than broad generalisation. Second, it integrates internal control systems and revenue forecasting in one analytical framework instead of treating them as separate reform topics. Third, it demonstrates that the interaction between planning realism and execution discipline is central to understanding budget credibility in decentralised governments.

6.5 Recommendations for Policy and Practice

The dissertation recommends that Salima District Council and similar local authorities adopt risk-based internal controls, hybrid cash-sensitive revenue forecasting, stronger internal audit follow-up, robust receivables enforcement, monthly variance dashboards, and tighter commitment control linked to realistic cash-flow plans. At policy level, support institutions should emphasise budget credibility as a composite outcome and provide guidance that helps councils manage funding volatility rather than merely prepare annual budgets.

6.6 Suggestions for Further Research

Future research should extend the analysis to multiple district councils in Malawi to compare how differences in revenue structure, management capacity, and donor exposure affect budget adherence. There is also scope for quantitative panel analysis using comparable council financial statements over several years. Additional research could investigate the political economy of own-source revenue enforcement, the effect of internal audit committee functionality on council controls, and the relationship between budget credibility and service-delivery outcomes in district governments.

6.7 Final Remark

A credible budget is one that can be trusted as an operational statement of public intention. At Salima District Council, improving that credibility requires more than stricter paperwork or more ambitious projections. It requires a disciplined alignment of realistic revenue expectations, risk-aware management, timely monitoring, and cash-consistent execution. When these elements work together, the budget becomes not only a financial plan but also a more reliable instrument of local development and accountability.

Extended Analytical Appendix

Extended Analytical Appendix: Expanded Literature Synthesis on Local Government Budget Credibility

This appendix expands the literature review and provides additional analytical reflection that supports the main body of the dissertation. The first recurring theme in the literature is that public budgets are simultaneously technical and political instruments. They are technical because they require estimates, classifications, control rules, and reporting systems. They are political because they embody choices among competing priorities, distribute benefits and burdens, and reflect relationships among institutions. In local government, this duality is particularly visible because budget choices affect projects and services that citizens can directly observe. A district council therefore needs technical capability to prepare realistic budgets and political discipline to preserve approved priorities during execution.

A second theme is that weak budget credibility has cumulative institutional effects. When managers expect revenue shortfalls or reallocations, they adjust their behaviour in anticipation. Procurement may be delayed until releases are confirmed. Programme managers may over-request resources to protect themselves against future cuts. Finance staff may rely on informal prioritisation rather than transparent budget rules. Over time these coping mechanisms make the budget less informative and less authoritative. The challenge is therefore not only to improve one year's outturn but to rebuild confidence that the budget is a reliable basis for action.

A third theme concerns the relationship between forecasting and accountability. Forecasts are often treated as neutral technical estimates, yet they influence the politics of approval and execution. A forecast that is too optimistic can create unrealistic expectations among departments and stakeholders. When those expectations are not met, accountability becomes blurred because officials may blame external conditions, implementation delays, or treasury releases rather than the original forecast assumptions. Better forecasting therefore improves accountability by clarifying what level of spending was realistically supportable from the outset.

A fourth theme in the literature is that internal controls should be judged by outcomes as well as process compliance. Organisations often report whether procedures exist, whether reconciliations are performed, or whether approval signatures are present. These are important, but they are intermediate indicators. The deeper question is whether the controls reduce variance, improve timeliness, limit arrears, strengthen forecasting discipline, and preserve compositional integrity. In this dissertation, the finding that significant composition deviations occurred despite a low aggregate variance shows exactly why outcome-oriented assessment is necessary.

A fifth theme is the importance of organisational learning. Forecast error analysis, audit follow-up, and periodic review of debtor performance are all mechanisms through which organisations learn from past budgeting cycles. Without these feedback processes, reform becomes repetitive and superficial. A council may continue to discuss the same weaknesses each year without embedding changes in templates, thresholds, or reporting routines. For local governments operating in difficult fiscal environments, learning mechanisms are often the most cost-effective reforms because they improve decisions without requiring large new systems.

A sixth theme concerns sequencing. The literature on PFM reform cautions against adopting complex tools before basic disciplines are functioning. For Salima District Council, this means that the priority is not advanced econometric modelling or elaborate performance budgeting architecture. The more urgent steps are to strengthen debtor analysis, cash-flow forecasting, risk registers, variance response, and the follow-up of internal audit findings. Once these foundations are operating reliably, more advanced methods may be considered.

A seventh and final theme is that budget credibility should be linked to service delivery and public trust. Financial adherence matters not as an end in itself but because it supports reliable implementation of approved activities. When district budgets are credible, schools, health facilities, extension teams, and infrastructure projects are more likely to receive inputs on time. Communities are more likely to perceive the council as responsive and accountable. In this sense, budget credibility is one of the pathways through which public financial management influences development outcomes.

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Appendices

Appendix A: Summary of Questionnaire Structure

Section A gathered respondent profile information. Section B assessed internal control systems across the COSO dimensions. Section C assessed revenue forecasting practices, including data use, method selection, treatment of arrears, and review of forecast errors. Section D assessed budget adherence, monitoring, and causes of variances.

Appendix B: Summary of Interview Themes

Interview themes included the annual budgeting process, revenue forecasting methods for own-source and externally financed streams, use of IFMIS, commitment control practices, treatment of large debtors, internal audit organisation, follow-up of recommendations, and explanations for expenditure variances and cash-flow stress.

Appendix C: Documentary Evidence Analysed

The documentary analysis drew on the council's financial statements for 2021/22 and 2022/23, the 2022/23 budget-versus-actual schedule, revenue and expenditure composition tables, receivables and payables schedules, and the FY2026/27 central transfer cash-flow planning template.

Appendix D: Additional Analytical Note

The financial profile of Salima District Council suggests that the council operates under a structurally constrained model of local budgeting. Own-source revenue represented only about 4.74% of total revenue in 2022/23, while external sources accounted for approximately 95.26%. This means that effective budget execution depends not only on local administrative effort but also on the council's capacity to translate externally determined resources into cash-consistent commitments. The implication is that reform should focus on adaptability, risk management, and credible execution rules rather than assuming stable autonomous financing.

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Appendix E: Expanded Practical Note on Forecasting Reform and Control Sequencing

This appendix provides further elaboration on two reform priorities identified in the main dissertation: forecasting reform and control sequencing. The first point is that forecasting reform should not be interpreted narrowly as a statistical exercise. In a district council setting, forecasting is as much an administrative discipline as an analytical one. Good forecasts depend on the quality of debtor records, the timeliness of billing, the visibility of collection trends, the realism of release assumptions, and the willingness of management to challenge optimistic estimates. A technically elegant model built on weak data and weak administrative follow-up will not improve budget credibility. By contrast, a modest hybrid approach can produce significant gains if it is tied to reliable monthly review.

A practical forecasting template for Salima District Council would therefore classify revenues into at least four groups. The first group would be stable local revenue items with relatively observable historical trends. These items can be projected using prior collections adjusted for reasonable growth or decline assumptions. The second group would consist of weakly collected or highly arrears-sensitive local revenues. These should be projected using expected billing multiplied by conservative collection ratios based on historical recovery performance. The third group would include formula-driven transfers. These can be recorded at approved annual amounts but should also be converted into monthly release expectations using known timing patterns. The fourth group would include donor and project funds. These should be forecast using implementation milestones, procurement readiness, and known conditions precedent rather than annual entitlement alone. Such classification would allow the council to distinguish between nominally approved resources and realistically spendable cash.

The second point concerns sequencing of controls. District councils often attempt to strengthen internal controls by multiplying approvals and sign-offs. While some additional review may be justified, excessive procedural layering can slow implementation without solving the underlying risk problem. The more effective sequence is to start with the points in the budget process where errors become costly: revenue estimation, commitment authorisation, procurement initiation, cash scheduling, and variance response. If these stages are controlled well, many downstream irregularities become less likely.

For example, a council that links procurement initiation to verified monthly cash ceilings will reduce the risk of arrears more effectively than a council that only intensifies post-payment voucher checks. Similarly, a council that reviews its top debtors monthly and updates collection assumptions will improve budget realism more effectively than one that simply repeats previous-year estimates with minor adjustments. The aim is not to abandon transaction controls, but to position them within a broader risk-based system.

A third operational lesson is the importance of ownership. Forecasting and budget control should not be seen as the sole responsibility of the finance department. Revenue officers, planners, procurement staff, internal auditors, and programme managers all influence whether the budget remains credible. If departments continue to treat the budget as a document owned by finance rather than as a shared execution contract, the incentives for disciplined monitoring remain weak. Monthly execution forums, common dashboards, and clear action owners are therefore essential.

Finally, reform should be judged over repeated budget cycles. One year of improved reporting does not necessarily indicate structural change. The council should track whether forecast error narrows over time, whether utility arrears decline, whether debtor recovery improves, and whether expenditure composition remains closer to the originally approved pattern. These recurring indicators would provide a practical scorecard for determining whether reforms are translating into stronger budget credibility.