



MALAWI GOVERNMENT

**REPORT OF THE AUDITOR GENERAL  
ON THE  
ACCOUNTS OF THE CITY AND DISTRICT  
COUNCILS**

For The Years Ended 30th June, 2011 and 2012

National Audit Office  
P.O Box 30045  
Lilongwe 3

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**ON THE**  
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**COUNCILS**

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## **NATIONAL AUDIT OFFICE**

**VISION** : “To be an independent Supreme Audit Institution that promotes good governance.”

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**CORE VALUES** : Professional competence, behaviour and due care, Integrity; Objectivity; Independence; Confidentiality; Transparency & Accountability; Inclusiveness, Creativity and innovation and Public Interest Oriented

National Audit Office  
P.O. Box 30045  
Capital City  
Lilongwe 3  
Malawi

19th August, 2016

The Honourable Minister  
Ministry of Finance, Economic Planning and Development  
P.O. Box 30049  
Lilongwe 3  
Malawi

Dear Sir,

Pursuant to the provision of Section 184 (2) of the Constitution of the Republic of Malawi and the Section 14 and 15 of the Public Audit Act of 2003, I have the honor to submit my report on the results of the audit of the Accounts of the City and District Councils for the years ended 30th June 2011 and 2012 for tabling in the National Assembly.

Yours faithfully,



Stephenson D. L. Kamphasa  
Auditor General

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## ACRONYMS

CDF	: Constituency Development Fund
DC	: District Commissioner
DDF	: District Development Fund
FISP	: Farm Input Subsidy Programme
GRF	: General Resource Fund
IFMIS	: Integrated Financial Management Information System
IPC	: Internal Procurement Committee
IPSAS	: International Public Sector Accounting Standards
IRLAD	: Irrigation, Rural Livelihoods and Agricultural Development
ISSAIs	: International Standards of Supreme Audit Institutions
LGA	: Local Government Act of 1998
MRA	: Malawi Revenue Authority
NLGFC	: National Local Government Finance Committee
ORT	: Other Recurrent Transactions
PAA	: Public Audit Act of 2003
PFMA	: Public Finance Management Act of 2003
PPA	: Public Procurement Act of 2003

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## **EXECUTIVE SUMMARY**

In accordance with Section 6 of the Public Audit Act (PAA) of 2003 and Section 54 (1) of the Local Government Act of 1998, I have, on behalf of the National Assembly, examined and enquired into and audited the accounts of City and District Councils for the years ended 30th June 2011 and 2012.

### **Scope of Audits**

The audit of the Councils' financial statements was conducted on all Councils in Malawi for two financial years ended 30th June, 2011 and 2012 and the audits were performed in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). The audits were intended to provide an overall assurance of the general accuracy and propriety of the Councils' financial and accounting transactions. Although the audits were conducted in accordance with ISSAIs, they do not guarantee absolute accuracy of the accounts or detection of every error, financial irregularities and fraud.

However, the PPA empowers me to use discretion and make tests in any particular case. The extent of audit examinations varied depending on the strength of internal control systems in operation and the nature of transactions involved. Similarly, substantive tests were made on selected areas of the Councils' accounts in order to form an opinion as to whether or not the Councils funds were expended economically and in conformity with the wishes of the National Assembly.

### **Audit Methodology**

The core objective of the external audit function is to ensure accountability of public funds. In order to discharge this responsibility, my approach to audit involves the following:—

- planning the audits to obtain relevant information in the most efficient manner and to determine the audit procedures employed;
- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management;
- evaluating the overall presentation of financial statements
- evaluation and testing of the accounting and internal control systems;
- testing of controls to ensure that procedures have been applied and that the relevant laws and regulations have been complied with, including the test for validity, completeness and accuracy of the accounts; and
- reporting the audit findings based on the audit procedures performed and evidence gathered.

## Main Findings

The following main observations were noted during the audit:—

- Ineffective internal control systems leading to unaccountability of funds;
- Non valuation of the Councils' Non-Current Assets;
- Constituency Development Funds not properly accounted for;
- Flouting of procurement regulations;
- Poor maintenance of records; and
- IFMIS not fully rolled out to some councils resulting in inefficiencies in the processing and reporting of financial transactions

The main findings are summarised in the chart below;

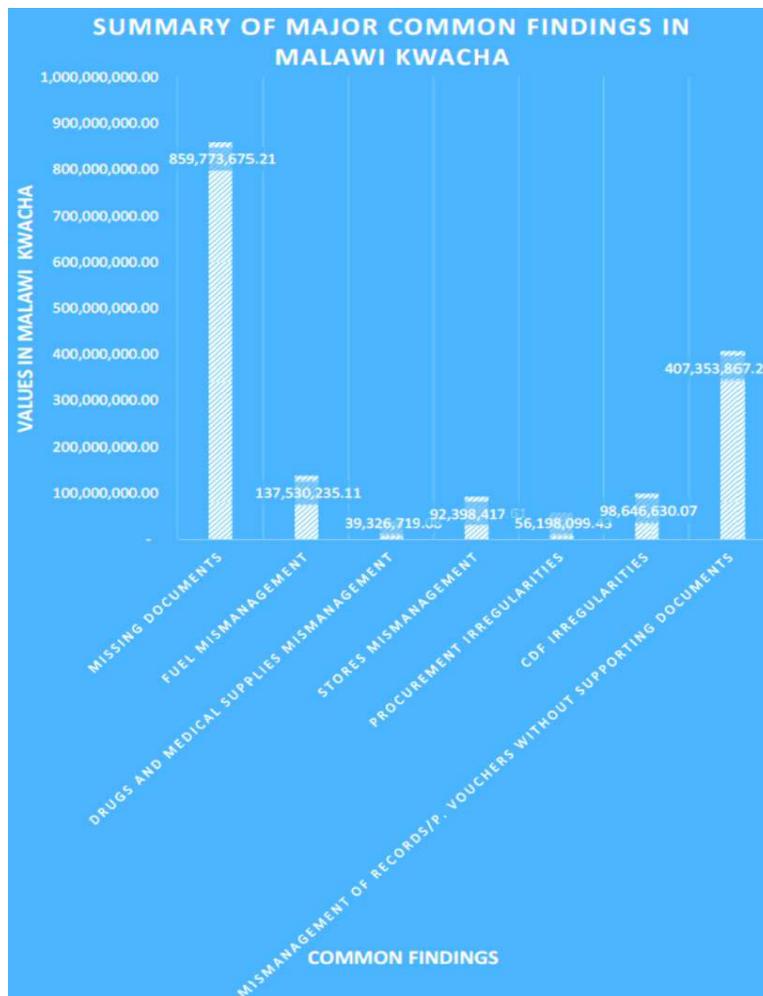


Figure 1: Summary of Major Common Findings in Malawi Kwacha

## **Achievements**

Despite the shortcomings as noted above, the following achievements were recognised during the period under review:—

- Some Councils were able to prepare financial statements in time and in accordance with applicable financial reporting framework; and
- CDF infrastructure development was evident in most of the constituencies.

## **GENERAL RECOMMENDATIONS**

- Councils should ensure that financial reporting is in line with the IPSAS and relevant financial authorities;
- Councils should ensure that all assets of the Council are valued by professional valuers;
- There is need to develop an effective system of accounting and internal control and institute measures to ensure that the system is operating effectively;
- There is need to improve procurement procedures and systems in all the Councils; and the Office of the Director of Public Procurement should assist in training of personnel in procurement procedures in the Councils.
- Constituency Development Fund should only be used for the intended purpose
- All payments should be properly approved, countersigned and supported by relevant documentation; and
- Management in the Councils should strengthen the systems of internal control and supervision;

## **ACKNOWLEDGEMENT**

I wish to place on record my profound gratitude and appreciation to the staff in my office who carried out their duties diligently thereby enabling the production of this report. I should also extend the same to the Irish Aid for the financial support provided to my office in order to fruitfully conduct these audits.

I also wish to acknowledge the assistance and cooperation rendered by the Ministry of Finance, Economic Planning and Development including Office of the Accountant General, the National Local Government Finance Committee, District Commissioners, Chief Executives and their staff during the audit period. The cooperation enabled me to obtain information and documentation for the audit in a timely manner.

## **PART I**

### **BACKGROUND AND GENERAL INFORMATION**

#### **Audit of Public Accounts**

1. I am required under Section 184 (1) of the Constitution of the Republic of Malawi of 1994 to audit and report on the public accounts of the Government of Malawi including Councils and to exercise such other powers in relation to the public accounts and accounts of other public authorities and bodies as may be prescribed by an Act of Parliament, in so far as they are compatible with the principle duties of my office.
2. Section 184 (2) of the same Constitution requires me to submit reports at least once a year to the National Assembly through the Minister responsible for Finance. Although Section 15 of the PAA requires me to report to the National Assembly through the President and the Speaker, the provision is inconsistent with the Constitution, and since the Constitution is the supreme law, this provision is deemed to be invalid to the extent of the inconsistency. Consultations with the Law Commission and relevant stakeholders have been initiated to have the inconsistency cleared.
3. The PAA provides, *inter alia*, for the administration, control and audit of the public finances of Malawi. In discharging these duties, I am required under Section 6 (4) (d) of the same Act to determine whether the procedures and systems of internal control of each Ministry, Department, Agency and public authority or body do ensure that:—
  - Revenue is properly assessed and collected;
  - Expenditure is validly and correctly authorized;
  - Revenue, expenses, assets and liabilities are properly recorded and accounted for;
  - Financial and operating information is reliable;
  - Assets are safeguarded against loss or destruction;
  - Resources are employed and managed in an economic, effective and efficient manner;
  - There has been no waste or extravagance
  - Outcomes or provisions produced are consistent with those specified in any Appropriation Act;
  - Relevant Government policies and legislation are being complied with;
  - All expenditure is charged against the relevant allocation appropriated by the National Assembly; and
  - The accounts and records have been properly kept.
4. Section 6 (3) of the PAA requires the Auditor General to audit and examine transactions, books and accounts and other financial records associated with

any project, programme, and any other activity receiving funding in whole or in part from public money, public resources which in my opinion justifies further investigations.

5. In fulfilling these duties, powers and responsibilities lawfully conferred on me under Section 7 (1) of the PAA, I am required and any person authorized by me to:—
  - (a) Have full access at all reasonable times to all documents, books and accounts, public funds, public securities, government contracts, and books and accounts relating thereof and subject to audit, and to any place where they are kept;
  - (b) Request any person to supply any information or answer any questions relating to documents, books and accounts, money, or operations subject to audit and examination by me;
  - (c) Give notice in writing, requiring any person having possession or control of any documents, books and accounts subject to audit and examination by me to deliver all or any of them at a time and place and to such person specified in the notice;
  - (d) Inspect, measure or test any real or personal property to which any Government contract relates; and
  - (e) Enter any land, building, or place, other than a dwelling house, where a government contract is being performed that is subject to audit and examination by me.

#### **Compilation and Submission of Financial Statements**

6. Section 53 (1) of the Local Government Act of 1998 requires all the Councils to keep proper books of accounts and other records in relation thereto and to balance their accounts for each year and produce statements of final accounts within six months from the end of each financial year. The Councils are required to submit the final accounts to the National Local Government Finance Committee which is required to forward a copy to me.

#### **Controlling Officer's Responsibility**

7. In terms of LGA as read with Section 10 of the PFMA, it is the Controlling Officer's responsibility to maintain proper financial management systems. This involves keeping appropriate financial records, and where applicable, following generally accepted accounting principles. The Act also requires the Councils to keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Councils and enable them to ensure that the financial statements comply with the Public Finance Management Act, Public Procurement Act, Public Audit Act, Financial Management and Accounting Procedures for District Councils, District Development Fund Management Manual and other relevant Acts of Parliament.

8. In preparing the financial statements, the Controlling Officers have the following responsibilities:—
  - (a) Maintenance of proper accounting records;
  - (b) Selection of suitable accounting policies and applying them consistently;
  - (c) Making judgments and estimates that are reasonable and prudent;
  - (d) Compliance with applicable standards when preparing financial statements subject to any material departures being disclosed and explained in the financial statements
  - (e) Preparation of financial statements on a going concern basis (sustainability of service) unless it is inappropriate to presume that the Council will continue in business.
9. It is also the responsibility of the Controlling officer to ensure that:—
  - (a) Public funds are only used to the extent, and for the purpose intended by the National Assembly;
  - (b) All necessary precautions are taken to safeguard the collection and custody of public money;
  - (c) All necessary precautions are taken to safeguard public resources;
  - (d) All expenditure is incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste;
  - (e) There is no over-expenditure or over-commitment of funds and a review is undertaken each month to ensure that there is no such over-expenditure or over-commitment; and
  - (f) The collection of public moneys is in accordance with approved plans and the estimates.

### **Scope of Audit**

10. In compliance with Section 13 of the PAA which requires me to use Generally Accepted Auditing Standards, the audit of the Councils' accounts was performed in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). The audit was intended to provide an overall assurance of the general accuracy and propriety of the Councils' financial and accounting transactions. Although the audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), it does not guarantee absolute accuracy of the accounts or detection of every error, financial irregularities and fraud.
11. The PAA empowers me to use discretion and make tests in any particular case. The extent of audit examinations varied depending on the strength of internal control systems in operation and the nature of transactions involved.

Substantive tests were made on selected areas of Councils' accounts in order to form an opinion as to whether or not Councils money is expended economically, and in conformity with the wishes of the National Assembly.

### **Audit Methodology**

12. The core objective of the external audit function is to ensure accountability of public funds. The Public Audit Act empowers me to use discretion and make tests in any particular case. To discharge this responsibility, the audit approach in this assignment involved the following:—
- Planning the audits to obtain relevant information in the most efficient manner and to determine the audit procedures employed;
  - Evaluation and testing of the accounting and internal control systems;
  - Testing of controls to ensure that procedures have been applied and that the relevant laws and regulations have been complied with, including the test for validity, completeness and accuracy of the accounts; and
  - Reporting the audit findings based on the audit procedures performed and evidence gathered.

### **Audit Reports**

13. Section 14 (1) of the PAA requires the Controlling Officer, Head of an agency, statutory body or other affected person in respect of any matters that may relate to an audit, to respond to me within fourteen (14) days of receiving the report.

### **Audit Opinions**

14. For the years ended 30th June 2011 and 2012, the Councils received different opinions as follows:

<u>Auditor's Opinion</u>	<u>30th June, 2011</u>	<u>30th June, 2012</u>
Unqualified	None	Mwanza
Qualified 'Except for'	Chiradzulu, Lilongwe City, Mangochi, Ntcheu and Thyolo	Chiradzulu, Lilongwe City, Mangochi, Neno, Ntcheu, Thyolo and Nkhatabay
Adverse	Blantyre City, Likoma	Likoma, Lilongwe District
Disclaimer of Opinion	Dedza, Karonga, Machinga, M'mbelwa, Mchinji, Mwanza, Mzuzu City, Phalombe, Rumphu, Salima, Nkhotakota	Blantyre City, Dedza, Karonga, Machinga, M'mbelwa, Mchinji, Mzuzu City, Phalombe, Rumphu, Salima, Nkhotakota

*Note: For the definition of each opinion, please refer to the Table of Glossary*

## PART II

### STRUCTURE AND OVERALL PERFORMANCE

#### Financial Management and Administration Policies

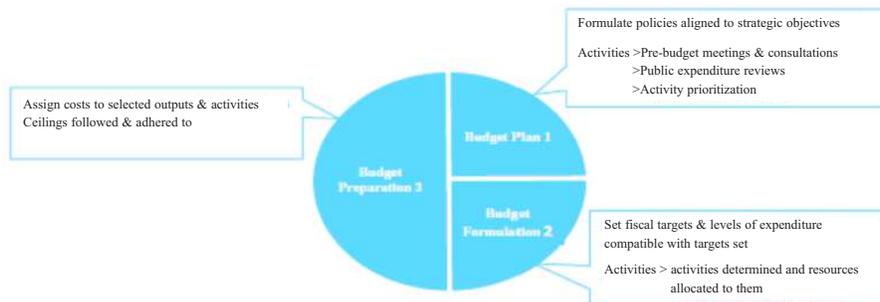
15. The Local Authorities' Financial Management is governed by the Local Authorities Accounting and Financial Management Procedures Manual of May, 2009. However, the following prevailing legal instruments provide the overarching framework:—

- The Constitution of the Republic of Malawi, 1994;
- The Public Finance Management Act (PFMA), 2003;
- The Public Audit Act (PAA), 2003;
- The Public Procurement Act (PPA), 2003;
- The Local Government Act (LGA), 1998;
- The Corrupt Practices Act (CPA), 1998; and
- By-laws of the Local Authority

#### Budgeting process

16. The Budgeting guidelines used in the Local Authorities were developed by Ministry of Finance. These are further elaborated by the NLGFC to include locally generated revenues, development partners grant to the Local Authorities and sectoral guidance for the planning period. The budgeting process undergoes several stages which include the following:—

#### BUDGETING PROCESS FOR THE COUNCILS



Once completed, the budget is submitted to the National Local Government Finance Committee (NLGFC) for technical review. Final consolidated budget is approved by the NLGFC and submitted to Parliament by Minister of Local Government for noting. However the component of the Local Authorities budgets covering central transfers are submitted to Ministry of Finance.

**Figure 2: Budgeting process for the Councils**

### 17. Budget planning

- involves formulating policies aligned to strategic objectives and priorities at both micro and macro level; and
- activities include Pre-budget meetings and consultations, public expenditure reviews and activity prioritization

### 18. Budget Formulation

- includes setting fiscal targets and levels of expenditure which are compatible with the set targets; and
- Activities are then determined in order of their competing needs and finally resources are allocated to those activities

### 19. Budget Preparation

The figure below depicts the budget preparation process for local councils.



**Figure 3: Budget preparation for Councils**

### Accounting and financial reporting for local authorities

20. The functions of the National Local Government Finance Committee in relation to the accounting and financial reporting for Local Authorities are:
- To receive all estimates of revenue and all budgets of local authorities;
  - To prepare a consolidated budget for all local authorities' annual revenue and expenditure estimates in consultation with the Ministry of Finance for presentation to the National Assembly by the Minister of Local Government and Rural Development;
  - To examine and supervise accounts of local authorities in accordance with any Act of Parliament, subject to recommendations of the Auditor General;
  - To make recommendations relating to the distribution of funds allocated to local authorities by Central Government and to vary from time to time the amounts of allocation in accordance with economic realities on the ground; and

- To make application to the Minister for supplementary funds where necessary.

#### **The Procurement Procedures**

21. The Local Authority procurement processes follow the procurement procedures as laid down in the Public Procurement Act of 2003 and Public Procurement Regulations of 2004. The Local Authorities have the Internal Procurement Committees which oversee all the procurement processes at the Council.

## **PART III**

### **AUDIT RESULTS OF THE COUNCILS**

#### **GENERAL AUDIT OBSERVATIONS**

22. An audit of financial statements for the Local Councils was completed in March 2015. The Councils which were audited are Blantyre City, Lilongwe City and Lilongwe District, Chikhwawa, Chiradzulu, Mwanza, Neno, Nsanje, Ntchisi, Phalombe, Salima, Thyolo, Mulanje, Zomba District and City, Machinga, Mangochi, Balaka, Ntcheu, Dedza, Nkhotakota, Mchinji, Nkhatabay, Rumphu, Chitipa, Karonga, Mzuzu City, M'mbelwa, Dowa, Kasungu, Mwanza and Likoma. Observations of some Councils may not necessarily appear in this report because they were resolved at management level.

Most of the audit findings are recurring and management of local Councils should take issues of accountability as the audit disclosed the following internal control weaknesses which cut across all the Councils:—

#### **Accounting for Financial Resources**

23. The audit has revealed that most Councils failed to account for the financial resources through non accountability of cash, fuel and procured stores.

#### **Accounting Records**

24. Local Government Act of 1998 stipulates that all Councils shall keep proper books of accounts and other records from which financial statements or final accounts will be produced. The audit has revealed that most Councils failed to maintain all the necessary books of accounts and records due to low levels of skilled accounting personnel, negligence and laxity.

#### **Accounting for Non-Current Assets**

25. Financial Management and Accounting Procedures Manual for the Councils requires each Council to open and maintain a fixed asset register regularly which should contain all assets' details. The audit review disclosed that most councils did not maintain fixed assets registers to account for assets as required by the Local Authorities Accounting and Financial Management Procedures Manual. In addition almost all Councils' assets were not valued and the values stated in the Financial Statements were not realistic.

#### **Bank Reconciliation Statements**

26. Most Councils' bank accounts were not reconciled regularly and where accounts officers attempted to prepare the reconciliation statements, there was little relevance to the underlying cashbook balances. Further, there were no reviews by senior officers to approve the reconciled statements. This weakness resulted in figures not properly adding up in the books of accounts

as well as the financial statements balances.

27. Apart from the observations above, the following were also noted:
- i. In most councils payment vouchers were without supporting documents
  - ii. There was an ineffective or non-existent internal audit function in most councils
  - iii. Public Procurement Act of 2003 and its related regulations were not followed in most of the councils
  - iv. In most councils payment vouchers and other relevant records were not produced for audit inspection
  - v. In some Councils there was improper charge to Constituency Development Fund:
  - vi. Revenue was not properly accounted for in most of the Councils
  - vii. Internal Borrowing from DDF Account
  - viii. There was Poor Stores Management in most Councils
  - ix. Failure to Prepare Bank Reconciliation Statements

## **SPECIFIC AUDIT FINDINGS**

### **BALAKA DISTRICT COUNCIL**

28. An audit of financial statements for Balaka District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

- (a) **Payment Vouchers without Supporting Documents: K2,810,534.00**  
Treasury Instructions stipulate, among other things, that payment vouchers must be duly authorized and countersigned by relevant authorities before they are passed for payment. They further require payment vouchers to be fully supported by relevant documents such as invoices, memos, and loose minutes among others.

An examination of payment vouchers disclosed that payments for fuel and maintenance works totalling K2,810,534.00 with a breakdown of K1,740,034.00 and K1,070,500.00 for Council ORT and LDF respectively, relating to the period between July 2010 and June 2012 were made without being supported by adequate documents. It was, therefore, difficult for auditors to ascertain the validity of such expenditure.

#### **Constituency Development Fund**

- (b) **Purchase of Building Materials without IPC Approval: K4,144,772.30**

The PPA stipulates that Internal Procurement Committee (IPC) must approve all procurement of goods and services.

Examination of internal procurement minutes for the period between August 2010 and May 2012 revealed that building materials amounting to K4,144,772.30 for the CDF projects were purchased without IPC approval since there were no IPC minutes to support the purchase of those building materials.

(c) **Items not Recorded in the Stores Ledger: K7,246,265.26**

Treasury Instructions require that all stores purchases must be recorded in the stores ledger to promote transparency and accountability.

An examination of Goods Received Notes (GRNs); Local Purchase Orders (LPOs), delivery notes and the stores ledger revealed that building materials for constituency Development Fund projects worth K7,246,265.26 purchased during the period between January 2011 and June 2012 were not recorded in the stores ledger.

**District Health Office (DHO)**

(d) **Drugs and Other Medical Supplies not recorded on Stock Cards: K3,201,906.00**

Government health facilities are required to keep stock cards on which drugs and other medical supplies received from Central Medical Stores (CMS) and other suppliers are recorded and issues from the drugs store reflected. This documentation is very useful in stock levels management, stock taking and stock valuation.

An examination of delivery notes, invoices and stock cards for the period between August 2010 and June 2012 revealed that drugs and other medical supplies amounting to K3,201,906.00 were not recorded on the stock cards.

(e) **Irregular Payment of Locum allowances: K3,608,800.00**

Locum operational guidelines require that duty rosters, locum application forms and locum work payment forms should be processed before payment voucher is prepared.

However, it was established that a total of K3,608,800.00, in respect of locum allowances for the period between July 2011 and June 2012 was paid without following the locum payment guidelines as duty rosters, locum application forms and locum payment forms were not prepared.

(f) **Payment Vouchers without Supporting Documents: K1,270,351.12**

An examination of expenditure transactions disclosed that payment vouchers amounting to K1,270,351.12 for the period between October, 2011 and June 2012 had no cash receipts attached to them. Therefore, the audit team could not ascertain the validity of the payments.

**District Agriculture Development Office (DADO)**

**(g) Fuel Not Recorded in the Fuel Register: K875,000.00**

To ensure proper usage and accountability of fuel, strong and adequate systems of accounting and control over fuel purchases need to be implemented. The systems, *inter alia*, should include recording of fuel purchases and issues in appropriate books.

An examination of expenditure records for fuel disclosed that between August 2010 and March 2012, the Office purchased fuel worth K875,000.00 which could not be traced in the fuel register. Consequently, the audit team could not ascertain the authenticity of expenditure on fuel and its usage.

### **CHIKHWAWA DISTRICT COUNCIL**

29. An audit of financial statements for Chikhwawa District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

**(a) Market fees not accounted for by revenue collectors: K820,000.00**

Treasury Instructions require that market masters issued with market fee receipt books should return the books to the stores clerk after completion for endorsement of money collected in the register.

A review of the market fee receipt books register for the period between April 2010 and February 2012 disclosed that some market fee receipt books with the value of MK820,000.00 were not returned by revenue collectors.

**(b) Stores not recorded in the stores ledger: K3,601,315.25**

Treasury Instructions require all purchased stores items to be recorded in the stores ledger before issues are made for proper accountability.

Contrary to this requirement, the audit revealed that stores items worth K3,601,315.25 for the IRLAD project were not recorded in the stores ledger.

**(c) Fuel not recorded in the fuel register: K2,145,886.00**

Treasury Instruction (Stores) 5707 (1) states that a stores ledger for the purpose of recording the receipts and issues of all stores will be kept for each store.

Contrary to this requirement, the audit revealed that fuel worth K2,145,886.00, procured between July, 2010 and June, 2012 was not recorded in a fuel register

### **CHIRADZULU DISTRICT COUNCIL**

30. An audit of financial statements for Chiradzulu District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit

disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

**(a) Payments made without attaching supporting documents K6,332,048.34**

Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed for easy and ready accessibility upon request by Ministry of Finance and National Audit Office staff.

An examination of expenditure records revealed that proper internal control systems were not strengthened by management as required by the above instruction. It was observed that payment vouchers for the year 2011/2012, amounting to K6,332,048.34, were passed for payment without supporting documents.

**(b) Fuel Purchases Not Recorded in the Register: K12,415,816**

Treasury instructions require that all fuel purchased should be recorded in the fuel register for proper accountability.

An examination of payment vouchers and posting of fuel purchases into the fuel register revealed that fuel amounting to K12,415,816.00 purchased in the year 2011/2012, was not recorded in the fuel register as a result it was difficult to establish its accountability.

**(c) Stores Purchases Not Recorded in the Ledger: K6,424,989.57**

Treasury Instructions require all purchased stores items to be recorded in the stores ledger before issues are made for proper accountability.

An examination of payment vouchers, delivery notes along with the stores ledgers revealed that purchases valued at K6,424,989.57 were not recorded in the stores ledger. The purchases were made between July, 2011 and January, 2012. Out the total amount, K395,219.57 was for DHO and K6,029,770.00 was for DEM. It was difficult for the inspecting auditors to ascertain disposal of the purchased items.

**(d) Payment Vouchers Not Produced for Audit inspection: K2,645,884.77**

The PAA under Section 7 empowers the Auditor General and any officer assigned by him to have access to necessary documentation and information for audit purposes.

Chiradzulu District Health Office did not produce for examination, payment vouchers amounting to K2,645,884.77 for the period between July, 2011 and December, 2011.

### **CHITIPA DISTRICT COUNCIL**

31. An audit of financial statements for Chitipa District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit

disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

- (a) **Payments Made Without Payment Vouchers: K15,806,211.20**  
Treasury Instruction 5.16, among other things, requires every Controlling Officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment and that every payment should be through a voucher in a form approved by the Secretary to the Treasury.
- An examination of payments disclosed that between July, 2010 and June, 2012, payments amounting to K11,194,562.20 and K4,611,649.00 (totalling K15,806,211.20) for Locally Generated Revenue and Council's Headquarters ORT respectively, were passed without raising any payment vouchers.
- (b) **Payment Vouchers without Supporting Documents: K20,411,972.87**  
Treasury Instructions require payment vouchers to have supporting documents firmly attached before drawing cheques.
- An examination of financial records relating to Headquarters' other recurrent transactions disclosed that payments amounting K20,411,972.87, made between August, 2010 and April, 2012 were effected without supporting documents.
- (c) **Failure To Account For Project Materials (CDF): K5,356,592.00**  
Accounting guidelines for the Constituency Development Fund require that building materials acquired for the projects under the fund should be accounted for by recording them in the stores ledgers.
- An examination of payment vouchers and stores ledgers revealed that building materials worth K5,356,592.00 procured between October, 2010 and March, 2012, were not recorded in the stores ledger. Consequently, it was difficult to ascertain the accountability of the building materials.
- (d) **Improper Charge to Constituency Development Fund: K1,574,009.50**  
Guidelines for the Constituency Development Fund do not allow certain expenditures to form part of expenses under the fund.
- An examination of payment vouchers and other accounting records disclosed that between October, 2010 and June, 2012, the Council used K1,574,009.50 from the CDF on non-allowable expenses. As a result, the projects that could have used the funds suffered.

#### **DOWA DISTRICT COUNCIL**

32. An audit of financial statements for Dowa District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit

disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

- (a) **Purchases made without IPC authority: K32,743,464.21**  
PPA requires that a Procurement Entity should comply with provisions of the Act by having a competent Internal Procurement Committee (IPC) and by reaching buying decisions after the IPC has evaluated available options.

It was noted that procurements totalling K32,743,464.21, made between July, 2010 and June, 2012 were made in the absence of an IPC.

- (b) **Payments without sufficient supporting documents: K15,632,416.72**  
Treasury Instructions require that supporting documents such as Invoices, Local Purchase Orders and IPC Minutes must be firmly attached to Payment Vouchers before they are processed for payment and to afford independent checks.

It was observed during the audit that management processed and passed for Payment, Vouchers totalling K15,632,416.72 in the period between June, 2010 and July 2011, without supporting documentation. In the absence of the sufficient supporting documents, the inspecting auditors could not ascertain the propriety and validity of the expenditure incurred.

- (c) **Payments without receipted vouchers: K4,949,450.00**  
Treasury Instructions require that recipients of subsistence allowances should sign for the amounts being paid to them and that receipted vouchers should be firmly attached to the payment voucher and filed properly for easy retrieval whenever they are required for verifications.

It was observed during the audit that Payments made between July, 2010 and June, 2012, meant for Subsistence Allowances drawn for staff, totalling K4,949,450.00 had no Receipted Vouchers. In the absence of the Receipted Vouchers, the inspecting auditors could not ascertain the accountability of the Subsistence Allowances drawn for staff.

- (d) **Irregular Payments of subsistence allowances: K6,513,836.00**  
Treasury Instructions require that payment vouchers should be fully supported by relevant documentation. In case of subsistence allowances a duly completed 'Request to Leave Duty Station Form' is supposed to be attached to the payment voucher.

An examination of payment vouchers revealed that management processed payments of Subsistence Allowances, between January, 2010 and June, 2012, totalling K6,513,836.00 without 'Request to Leave Duty Station Forms' attached to them.

- (e) **Payments direct to staff rather than bank accounts: K5,155,620.00**  
Government Regulations require that payments of Subsistence

Allowances should be made into beneficiary's respective bank accounts.

An examination of payment vouchers disclosed that Subsistence Allowances totalling K5,155,620.00 paid between December, 2011 and June, 2012 were paid to staff without using their respective bank accounts.

**(f) Stores not entered in the stores ledger: K7,277,781.26**

Treasury Instructions state that all purchases of Stores should be recorded in the Stores Ledger before issue to enhance accountability. It further states that Controlling Officers must ensure that an efficient system of stores procedures exists within their ministries and departments.

An examination of Payment Vouchers along with Delivery Notes disclosed that purchases of General Stores and Food Stuffs worth K5,778,715.26 and K1,499,066.00 respectively procured between July, 2010 and June, 2012, were not recorded in the Stores Ledger. It was therefore difficult for the auditors to ascertain their accountability.

**(g) Fuel not entered in the fuel register: K1,366,913.00**

Treasury Instructions require that all purchases of fuel should be recorded in the Fuel Register before issue for accountability purposes.

An examination of payment vouchers for the period between July, 2010 and June, 2012, disclosed that fuel purchases amounting to K1,366,913.00 were neither recorded in the fuel register nor motor vehicle log books.

**(h) DDF funds used on FISP activities: K1,900,000.00**

District Development Funds Financial Management and Accounting Procedures Manual Chapter 1.2 specifically disallow the following expenditure to be made from District Development Funds;

- Expenses not related to the project's implementation.
- Operational expenses for the Council
- Personal loans.
- Wages and salaries.

However, it was noted that Dowa District Council used District Development Funds totalling K1,900,000.00 on FISP activities without authority from Treasury.

## **KARONGA DISTRICT COUNCIL**

33. An audit of financial statements for Karonga District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

(a) **Internal Borrowing: K1,035,000.00**

Treasury Instructions stipulate that expenditure must be charged to the appropriate Vote/Programme and spent on intended purposes in accordance with the approved budget estimates. The instructions further state that no expenditure for that purpose may be charged to any other allocation without Treasury approval.

Contrary to this requirement, an examination of payment vouchers and other related records disclosed that a total amount of K1,035,000.00 was paid from the DDF account for the operations of the council.

It was noted that there were no details and reasons to support the payments and no evidence of refund.

**District Health Office**

(b) **Payment Vouchers Not Properly Authorised: K20,439,869.12**

Treasury Instructions require that Payment Vouchers must be authorized before they are passed for payment.

Contrary to this requirement, an examination of payment vouchers for the period ending June 30, 2012 disclosed that Payment Vouchers amounting to K20,439,869.12 were not properly authorized.

(c) **Payment Vouchers Without Supporting Documents: K14,726,491.29**

Treasury Instructions stipulate that payment vouchers must be fully supported by original invoices or any valid documents which should be firmly attached to the vouchers before payment is made.

Contrary to this requirement, an examination of payment vouchers for the period ending 30th June 2012 disclosed that payments amounting to K14,726,491.29 were made without supporting documents.

(d) **Failure to Clear Outstanding Creditors: K56,361,187.66**

During the audit inspection, it was noted that Management was struggling to clear a debt amounting to K56,361,187.66 which had been accumulated since 2007. The creditors list was reviewed and the following weaknesses were highlighted:

- Some creditors as appearing on the list were not supported by invoices.
- No proper filing system of invoices that may lead to loss of them.
- No creditor's ledger in place and as a result, it was difficult to confirm running balances of the creditors.

(e) **Fuel Not Properly Accounted For: K7,286,550**

Treasury Instructions state that where consumable goods are received in bulk for subsequent issue in small lots, the transaction must be entered in consumable stores ledger.

Contrary to this requirement, an examination of payment vouchers, fuel ledgers and logbooks for the period ending 30th June 2014 revealed that fuel worth K7,286,550.00 was not properly accounted for as evidenced by nonrecording of fuel in the fuel ledger and logbooks. Some of the fuel recorded in the ledger was not completely issued and the balances could not be accounted for.

**(f) Expired Drugs: K8,622,583**

A physical inspection of the pharmacy was conducted to confirm that drugs are properly managed. It was noted that there were expired drugs valued at K8,622,583. It was further observed that most of these drugs were procured when their expiring dates were almost due.

**District Agriculture Development Office ASWAP**

**(g) Payment of Subsistence Allowance Instead Of Lunch Allowance: K2,361,000.00**

Government regulations require that subsistence allowance must be paid when an officer spends a night away from his or her duty station on official duties.

Contrary to this requirement, an examination of payment vouchers for the period ending 30th June 2012 revealed that some officers were paid subsistence allowance instead of lunch allowance while working within Karonga. The total amount paid was K2,361,000.00.

**District Education Manager**

**(h) Procurements Made Without Sourcing At Least Three Quotations: K6,303,675.43**

The PPA stipulates that when an entity has adopted a method of procurement through sourcing three quotations before selecting a supplier, the entity must source three quotations from registered suppliers from whom one is selected to supply goods or services to the entity.

Contrary to this requirement, an examination of payment vouchers and other related records for the period between 1st July 2011 and 30th June 2012 unveiled that goods and services amounting to K6,303,675.43 were procured without sourcing three quotations.

**LILONGWE CITY COUNCIL**

34. An audit of financial statements for Lilongwe City Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

- (a) **Revenue Not Recorded in the Receipts Cash Book: K136,274,898.73**  
Local government financial procedures require that revenue collected should be recorded in the receipts cash book.

The posting of receipts to cash book revealed that revenue totalling K19,905,925.28 and MK116,368,973.45 collected during 2010/11 and 2011/12 financial years respectively were not recorded in the receipts cash books.

- (b) **Cash Receipts Not Presented for Audit: K160,933,197.81**  
Local government financial procedures manual requires that all revenue collected should be supported with proper documentation.

Posting of actual cash receipts to the cash book revealed that revenue totalling K19,490,555.54 and K141,442,642.27 for 2010/11 and 2011/12 financial years respectively had no supporting cash receipts. Consequently it was difficult to confirm that all revenues collected were properly accounted for.

- (c) **Revenue Not Accounted For: K21,168,389.46**  
Local government financial procedures manual requires that all revenue collected should be banked intact.

A review of receipts and bank statements revealed that revenue totalling K21,168,389.46 collected during 2011/12 financial year was not banked. In addition, there was no evidence to indicate how the amount was accounted for.

- (d) **Payment Vouchers without Supporting Documents: K100,498,568.45**

Local Authorities accounting and Financial Management Procedures Chapter 8 Paragraph 8.3.3 requires that payment vouchers must have all necessary supporting documents before they are authorised and passed further for payment.

However, payment vouchers for the period between July, 2010 and June, 2012 disclosed that payment vouchers amounting to K100,498,568.45 had no supporting documents as per Table 1 below;

**Table 1: Payment Vouchers for Lilongwe City Council without supporting documents according to Sectors**

<u>SECTOR</u>	<u>AMOUNT(K)</u>
DEM other goods and services 2010/2011	6,124,586.70
DEM other goods and services 2011/2012	6,794,636.45
Other goods and services, Office Supplies and Public Utilities Headquarters July 2010 to June 2012	68,598,206.20
Internal and External travel Headquarters July 2010 to June 2012	1,344,700.00
DEM motor vehicle Expenses	3,669,231.11
General maintenance, Motor vehicle expenses and other costs Headquarters July 2010 to June 2012	13,967,207.99
<b>Total</b>	<b><u>100,498,568.45</u></b>

(e) **Received Vouchers Not Presented for Audit Review: K4,995,808.00**

It is a requirement that all audited entities present all documents, books and accounts for audit - examination.

An examination of payment vouchers for the period between July, 2010 and June, 2012 disclosed that received vouchers totalling K4,995,808.00 were not presented for audit examination. As a result, it was difficult to determine how the amounts were accounted for since there was no evidence that they were brought on charge.

(f) **City Council's Property without Title Deeds: K386,766,581.17**

A review of fixed assets schedule of land and buildings as at 30th June 2012 disclosed that councils' land and buildings with Net Book Value of K386,766,581.17 had no title deeds as evidence of ownership.

(g) **Payment Vouchers Not Presented for Audit: K518,027,931.91**

The PPA, inter alia, requires all public officers to provide all necessary documents and information for audit purposes whenever the information is required. An examination of payment vouchers revealed that payment vouchers amounting to K295,669,712.32 and K222,358,219.59 for 2010/2011 and 2011/2012 financial years respectively were not presented for audit.

(h) **Failure to Remit Tax to Malawi Revenue Authority K59,787,413.64**

The Taxation Act among other things stipulates that Pay As You Earn (P.A.Y.E.) and Withholding Tax (WHT) must be remitted to Malawi Revenue Authority by the 14th day after deduction and are payable monthly.

The VAT Act requires the submission of returns for VAT to be done every month to Malawi Revenue Authority within fourteen days of the end of the previous month.

Contrary to the above requirements, a review of Financial Statements disclosed that the Council did not remit Withholding Tax and Pay As

You Earn amounting to K3,559,860.97 and K56,227,552.67 for 2010/11 and 2011/12 financial years respectively.

**MACHINGA DISTRICT COUNCIL**

35. An audit of financial statements for Machinga District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

(a) **Payment Vouchers without Adequate Supporting Documents- MK5,494,063.61**

Local Authorities Accounting and Financial Management Procedures Manual Chapter 8 Paragraph 8.3.3 requires that payment vouchers must have all necessary supporting documents before they are authorised and passed for payment.

An examination of payment vouchers for the period under audit revealed that payments amounting to K5,494,063.61, made between July, 2010 and February, 2012 did not have adequate supporting documents. Refer to the table below for the breakdown per sector:

**Table 2: Payment Vouchers for Machinga DC without supporting documents according to Sectors**

<u>SOURCE</u>	<u>AMOUNT (K)</u>
Headquarters	2,132,992.00
DHO	<u>3,361,071.61</u>
<b>Total</b>	<b><u>5,494,063.61</u></b>

(b) **Stores Items Not Recorded in the Stores Ledger: K12,566,209.01**

Treasury Instructions require that a stores ledger be kept and maintained for the purpose of recording receipts and issues of stores. This ensures that there is proper accountability of stores items purchased.

An examination of records for the period between July, 2010 and June, 2012, revealed that the council did not record stores items purchased worth K12,566,209.01. Therefore, it was difficult to ascertain the disposal and accountability of the stores. Refer to the table below for breakdown:

**Table 3: Stores items for Machinga DC not recorded in the stores ledger according to Sectors**

<u>SOURCE</u>	<u>AMOUNT (K)</u>
District Education Managers Office	7,542,339.53
District Agricultural Development Office	2,463,493.19
District Health Office	<u>2,560,376.29</u>
<b>Total</b>	<b><u>12,566,209.01</u></b>

- (c) **Fuel Not Recorded in the Fuel Register: K18,818,830.00**  
 The Treasury Instructions require that a fuel register should be opened in which all fuel purchased and issued out shall be recorded for proper accountability.

An examination of records for the period between July, 2010 and June, 2012 revealed that the council did not record fuel worth K18,818,830.00 hence it was difficult to ascertain the disposal and accountability of the fuel.

Refer to the table below for breakdown:

**Table 4: Fuel for Machinga DC not recorded in the fuel ledger according to Sectors**

<u>FUEL SOURCE</u>	<u>AMOUNT (K)</u>
District Education Managers Office	8,288,830.00
District Agricultural Development Office	3,130,000.00
District Health Office	7,400,000.00
<b>Total</b>	<b>18,818,830.00</b>

**District Health Office (DHO)**

- (d) **Overpayment to a Supplier: K1,000,000.00**  
 An examination of payment vouchers and suppliers' invoices revealed that between February and June, 2012, the District Health Office over paid Chingwa Medical Suppliers by K1,000,000.00.

- (e) **Drugs Not Recorded in the Ledger: K7,220,000**  
 Treasury Instruction (Stores) No. 5707 (1) requires that a stores ledger be kept and maintained for the purpose of recording receipts and issues of stores purchased.

An examination of records revealed that between July and December, 2011 the hospital did not record drugs worth K7,220,000.00 in the drugs ledger hence it was difficult to ascertain the disposal and accountability of the drugs in question.

**District Agriculture Development Office (DADO)**

- (f) **Payment Vouchers Not Produced for Audit: K19,215,032.32**  
 Section 7(1a) of the PAA requires the Auditor General to have full access at all reasonable times to all documents for the purpose of fulfilling his duties.

An examination of documents for the period between July, 2010 and June, 2012 revealed that payment vouchers amounting to K19,215,032.32 were not produced for audit inspection hence the audit team failed to ascertain the propriety of the expenditure associated with

those payment vouchers. The payment vouchers included receipted payment vouchers as per table 5 below;

**Table 5: Payment Vouchers not produced by Machinga DADO**

<u>Category</u>	<u>AMOUNT (K)</u>
General Payment Vouchers	17,020,082.32
Receipted Vouchers	2,194,950.00
<b>Total</b>	<b><u>19,215,032.32</u></b>

#### **MANGOCHI DISTRICT COUNCIL**

36. An audit of financial statements for Mangochi District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

(a) **Revenue Not Accounted For: K15,202,405.05**

Public Finance Management Act requires Controlling Officers to take all necessary precautions to safeguard the collection and custody of public money.

A comparison of general receipts against deposit slips for the period from July 2011 to June 2012 revealed that revenue amounting to K15,202,405.05 was not deposited. The Council collected revenue from various sources totalling K80,026,500.42 and only K64,824,095.37 was banked leaving a balance of K15,202,405.05, but there was no supporting documentation to show how this revenue was accounted for.

(b) **Items Not Recorded In The Stores Ledger: K8,080,418.50**

Treasury Instructions require that all stores purchases must be recorded in the stores ledger to promote transparency and accountability.

An examination of Goods Received Notes (GRNs), Local Purchase Orders (LPOs), delivery notes, stores ledgers and stock cards revealed that building materials for Constituency Development Fund projects worth K4,371,418.50, purchased during the period between January 2011 and June 2013 were not recorded in the stores ledger. In addition, drugs and other medical supplies for DHO amounting to K3,709,000.00, purchased between October, 2011 and December, 2011 were not recorded in stock cards.

(c) **Payment of locum without following operational guidelines: K12,358,381.00**

Locum guidelines require that duty rosters, locum application forms and locum work payment forms should be processed before payment voucher is prepared.

However, it was observed that locum allowances amounting to K12,358,381.00 paid to employees between July, 2011 and December

2011 were processed for payment without following the locum payment guidelines. Duty rosters, locum application forms and locum payment forms were not prepared.

(d) **Fuel Not Recorded In the Fuel Register: K8,061,109.00**

Treasury Instructions require that all fuel bought must be recorded in the fuel register and issues reflected in the vehicle log books to promote transparency and accountability of the fuel usage.

An examination of payment vouchers alongside the fuel register for Mangochi District Council revealed that fuel worth K8,061,109.00 procured between July, 2011 and June, 2012, was not recorded in the fuel register. In the absence of record in the fuel register it was difficult to ascertain how the fuel was accounted for. Refer to the table below for breakdown;

**Table 6: Fuel for Mangochi District council not recorded in the fuel register**

<b>Cost Centre</b>	<b><u>AMOUNT (K)</u></b>
District Agriculture Development Office	2,981,159.00
District Education Manager's Office	<u>5,079,950.00</u>
<b>Total</b>	<b><u>8,061,109.00</u></b>

**MCHINJI DISTRICT COUNCIL**

37. An audit of financial statements for Mchinji District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

**District Council Secretariat**

(a) **Payment Vouchers without Sufficient Supporting Documents: K33,533,860.06**

Local Authorities Accounting and Financial Management Procedures Chapter 8 Paragraph 8.3.3 require that payment vouchers must have all necessary supporting documents before they are authorised and passed for payment.

However, it was observed that some payment vouchers for various accounts did not have adequate supporting documents. Refer to the table below for details:

**Table 7: Payment Vouchers for Mchinji DC without Sufficient Supporting Documents**

ACCOUNT NAME	<u>TOTAL UNSUPPORTED PAYMENTS (K)</u>
Council ORT Account	4,155,172.00
District Development Fund	6,157,912.00
Constituency Development Fund	6,712,217.38
Health Sector	<u>20,663,730.68</u>
<b>Total</b>	<b><u>33,533,860.06</u></b>

(b) **Expenditure Not in Approved Budget: K2,755,487.61**

The council prepares a budget for its operations at the beginning of each financial year which is approved by the Parliament. Therefore, it collects its revenue and spends basing on the approved budget. A review of the council's main ledger for the year ended 30th June, 2011, revealed that the council spent on some expenditure items that were not budgeted for.

(c) **Under Banking of Revenue: K1,058,431.30**

Local authority's financial management and accounting manual provides that all revenue collected by the council should be banked intact after collection from any source. It was noted that some revenue collected was not banked intact. There was no explanation as to how cash not banked was utilized by the council. Table 8 below is the summary of the revenue in question:

**Table 8: Under Banking of Revenue by Mchinji DC**

<u>YEAR</u>	<u>CASH COLLECTED (K)</u>	<u>CASH BANKED) (K)</u>	<u>DIFFERENCE (NOT BANKED (K)</u>
2010/11	36,606,726.35	35,993,667.05	613.061.30
2011/12	32,430,728.38	31,385,358.38	<u>1,045,370.00</u>
<b>Total</b>			<b><u>1,058,431.30</u></b>

**Constituency Development Fund (CDF)**

(d) **Ineligible Expenditure: K2,066,597.85**

Constituency Development Fund guidelines state that all funding for CDF should be used for activities relating to the CDF project. However, during the course of the audit, it was noted that between November, 2010 and April, 2011, the Council made payments amounting to K2,066,597.85 that were not related to the CDF.

### **Health Sector (DHO)**

(e) **Payment Vouchers Not Presented For Audit: K14,933,303.10**

It is a requirement that all accounting documents including payment vouchers should be presented for audit review.

However, an examination of payment vouchers for the period between July, 2010 and June, 2012 disclosed that payment vouchers amounting to K14,933,303.10 were missing, therefore, making it difficult to ascertain whether public resources were indeed spent for the benefit of the Council.

(f) **Cash Payments Instead of Cheques: K4,765,499.50**

Government accounting procedures require that all payments to suppliers should be made by cheques.

However, an examination of payment vouchers showed that some cheques totalling K4,765,499.50 drawn between July, 2010 and March, 2012 were cashed by officers who then paid the suppliers of goods/services.

(g) **Payments Not Supported By Receipted Vouchers: K6,183,650**

It is a Government requirement that all monies that are received on behalf of others must be dully signed by the recipient as evidence that indeed the intended beneficiary received the money.

It was however, observed that payments totalling K6,183,650.00 made between November, 2010 and March, 2012 were paid to officers on behalf of others did not have signatures of the intended beneficiaries. It was therefore difficult to ascertain whether the monies were received by the intended beneficiaries.

### **M'MBELWA DISTRICT COUNCIL**

38. An audit of financial statements for M'Mbelwa District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

(a) **CDF Projects Not Initiated By the Community: K12,239,228.07**

Constituency Development Fund (CDF) Guidelines require that projects should be initiated by the community. The community's representatives fill project identification forms as evidence of the projects that have been selected by the community.

An examination of CDF documents for the period of the audit revealed that projects amounting to K12,239,228.07 were undertaken but had no supporting project identification forms to prove that they were initiated by the communities.

## MWANZA DISTRICT COUNCIL

39. An audit of financial statements for Mwanza District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

- (a) **Stores Items Not Recorded In the Stores Ledger: K3,954,093.00**  
Treasury Instructions require that all items of stores purchased should be recorded in the stores ledger before being issued out. An examination of the CDF transactions revealed that items worth K3,954,093.00 procured between July, 2010 and June, 2012 were not entered in the stores ledger.
- (b) **Payment Vouchers without Supporting Documents: K7,466,322.67**  
Local Authorities Accounting and Financial Management Procedures Chapter 8 Paragraph 8.3.3 require that payment vouchers must have all necessary supporting documents before they are authorised and passed for payment. An examination of payment vouchers for period between July, 2010 and June, 2012 revealed that payments amounting to K7,466,322.67 were made without supporting documents as per table 9 below;

**Table 9: Payment Vouchers for Mwanza DC without Supporting Documents**

<u>SOURCE</u>	<u>AMOUNT (K)</u>
ORT	4,287,351.54
Operations Account	959,157.89
District Education Manager's Office	<u>2,219,813.24</u>
<b>Total</b>	<b><u>7,466,322.67</u></b>

- (c) **Payment Vouchers Not Produced For Audit: K7,523,127.00**  
Public Audit Act Section 6 (2) stipulates that the Auditor General is to audit and examine transactions, books and accounts, and other financial records associated with any project, programme and other activity receiving funding in whole or in part from public moneys of which documents to support this work have to be provided for the audit.

Contrary to the requirement, payment vouchers for the period between July, 2010 and June, 2012 for operations account amounting to K7,523,127.00 were not produced for audit.

## NENO DISTRICT COUNCIL

40. An audit of financial statements for Neno District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

- (a) **Failure to Revalue Non-Current Assets**  
 The verification of the existence of non-current assets for the Council revealed that the Statement of Financial Position for the Council included some amounts of non-existent assets and liabilities which were claimed to have been brought forward from the previous years. It was also noted that the noncurrent assets were not revalued as per the Local Authorities Financial Management policy.
- (b) **Unsupported Payments: K13,490,486.12**  
 Treasury instructions and the PFMA require that all payments from public funds should be properly supported as to their authenticity.  
 An examination of payments vouchers for the District Health Office revealed that payments amounting to K9,372,618.58 and K4,117,867.54 were processed without the support of Internal Procurement Committee minutes and quotations, respectively.

**NKHATA-BAY DISTRICT COUNCIL**

41. An audit of financial statements for Nkhatabay District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

- (a) **Fuel not recorded in the fuel register: K6,804,127.10**  
 Treasury instructions require that fuel purchases should first be recorded in the fuel register before issuing and all issues properly signed for. It further stipulates that motor vehicle and cycle log books should be kept and properly maintained.  
 It was, however, noted that during the period between July 2010 and June 2012 the council did not record in the register fuel worth K6,804,127.10.  
 It was, therefore, difficult for the audit team to ascertain the accountability of fuel in question. A summary of details of the fuel in question is given in the Table 10 below.

**Table 10: Fuel not recorded in fuel registers according to Sectors of Nkhatabay DC**

<b>SOURCE</b>	<b>AMOUNT (K)</b>
DDF	1,401,800.00
Health Sector	2,360,073.00
Education	3,042,254.10
	<b><u>6,804,127.10</u></b>

- (b) **General stores not recorded in stores ledger: K5,475,310.12**  
 Treasury instructions require that all stores purchased should first be recorded in the stores ledger before issuing and all issues properly signed for to ensure proper accountability.

Contrary to this requirement, the Council did not record stores worth K5,475,310.12 purchased during the period between July 2010 and June 2012 as per Table 11 below. Consequently, it was difficult for the audit team to ascertain the disposal of the stores.

**Table 11: General stores for Nkhatabay DC not recorded in the stores ledger according to the Sectors**

<b>SOURCE</b>	<b><u>AMOUNT (K)</u></b>
Health Sector	3,861,282.50
Education	<u>1,614,027.62</u>
	<b><u>5,475,310.12</u></b>

(c) **Food and rations not recorded in the ledger: K1, 565,825.00**

Treasury instructions require that all stores (food and rations) purchased should first be recorded in the stores ledger before issuing and all issues properly signed for to ensure proper accountability.

Contrary to this requirement, the District Health Office (DHO) did not record food and rations worth K1,565,825.00 purchased during the period between July 2010 and June 2012. Consequently, it was difficult for the audit team to ascertain the disposal of the food and rations.

(d) **Payment vouchers without supporting documents: K21,599,436.27**

Treasury Instructions stipulate inter alia, that any payment voucher on which an official payment has been made should have sufficient documentation to support the expenditure. Payment vouchers must be accompanied by supporting documents before payment is made.

However, it was observed that payment vouchers amounting to K21,599,436.27 were passed for payment without adequate supporting documents such as leave grant forms and invoices as shown in Table 12 below;

**Table 12: Payment vouchers without supporting documents according to Sectors of Nkhatabay DC**

<b>SOURCE</b>	<b><u>AMOUNT (MK)</u></b>
Health Sector	8,665,436.27
Education	<u>12,934,000.00</u>
	<b><u>21,599,436.27</u></b>

(e) **Payment Vouchers Not Produced for Audit inspection: K2,507,772.51**

The Public Audit Act empowers the Auditor General and any officer assigned by him to have access to necessary documentation and information for audit purposes.

The Council failed to produce payment vouchers for the period between 28th February, 2012 and 15th June, 2012 for examination. The payment vouchers amounted to K2,507,772.51 and relates to the Education Sector.

#### **NKHOTAKOTA DISTRICT COUNCIL**

42. An audit of financial statements for Nkhotakota District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

(a) **Revenue spent at source: K3,853,114.05**

Chapter 5.3 of the Local Authorities Accounting and Financial Management Procedures Manual states that each Local Authority shall open and maintain an operating bank account for the locally generated revenues with any commercial bank and that all revenue collected must be banked intact before being spent.

A review of revenue collected revealed that revenue amounting to K2,575,891.30 and K1,277,222.75 for 2010/2011 and 2011/2012 respectively did not have corresponding bank deposit slips implying that this revenue was used at source.

(b) **Fuel not accounted for: MK14,106,460.39**

Treasury instructions require that fuel purchases should first be recorded in the fuel register before issuing and all issues properly signed for. It further stipulates that motor vehicle and cycle log books should be kept and properly maintained.

It was, however, observed that the Council did not maintain fuel registers during the period between July 2010 and June 2012; consequently, fuel worth K14,106,460.39 was not recorded in the register.

It was therefore difficult for the audit team to ascertain the accountability of fuel. Table 13 below is the summary of the details for each sector;

**Table 13: Purchased fuel for Nkhotakota DC not accounted for**

<b>Cost Centre</b>	<b>AMOUNT (K)</b>
Council HQ ORT	1,196,065.39
LDF	1,426,235.00
Health Sector	11,484,160.00
<b>Total</b>	<b>14,106,460.39</b>

**District Health Office: Health Sector Account**

- (c) **Payment vouchers without supporting documents: K6,517,063.76**  
Chapter 8.3.3 (e) of the Local Authorities Accounting and Finance Management Procedures Manual states that all supporting documents shall be attached to the original copy of the payment voucher.

It was however observed that some payment vouchers amounting to K6,517,063.76 processed for payment during the period between January, 2011 and June, 2012, did not have supporting documents.

- (d) **Payment voucher not presented for audit: K1,632,330.00**  
Public Audit Act Section 6 (2) stipulates that the Auditor General is to audit and examine transactions, books and accounts, and other financial records associated with any project, programme and other activity receiving funding in whole or in part from public moneys of which documents to support this work have to be provided for the audit.

Contrary to the requirement, the council did not present for audit payment voucher number RQ010, cheque number 004911 amounting K1,632,330.00 in respect of subsistence allowance.

**NTCHEU DISTRICT COUNCIL**

43. An audit of financial statements for Ntcheu District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

- (a) **Payment Vouchers Not Presented for Audit: K22,249,256.78**  
The PAA stipulates that the Auditor General or any officer representing him be supplied with all documents and information he deems necessary for him to discharge his constitutional duties.

Contrary to this requirement, the audit team was not furnished with payment vouchers amounting to K22,249,256.78 for the period between June, 2010 and March, 2012. It was, therefore, difficult for the inspecting auditors to ascertain the validity of the payments associated with these payment vouchers. Table 14 below is the summary of the details for each sector;

**Table 14: Payment Vouchers for Ntcheu DC Not Produced for Audit**

<u>SOURCE</u>	<u>AMOUNT (K)</u>
Council Headquarters	7,389,603.13
LDF	14,859,653.65
<b>Total</b>	<b>22,249,256.78</b>

(b) **Project funds used for Other Recurrent Transaction (ORT) activities: K17,331,565.44**

According to Project agreements relating to project funds, the Council is required to use funds for their intended purpose.

Contrary to this requirement, an examination of payment vouchers for project funds revealed that between July, 2010 and March, 2012, the Council used project funds amounting to K17,331,565.44 for ORT activities. Out of this amount, K1,807,551.81 was borrowed from LDF account, K13,724,013.64 from DDF account, and K1,800,000.00 from CDF account. There was no evidence to show that the Council had refunded the funds.

(c) **Payments without Supporting Documents: K45,382,202.31**

Accounting regulations require that payment vouchers should be accompanied by adequate supporting documents before payment is made. This is because supporting documents to the payment vouchers show whether all controls regarding the payment have been followed.

It was, however, observed that payment vouchers amounting to K45,382,202.31, passed for payment between July, 2010 and June, 2012 had no supporting documents.

The details are given in the table 15 below;

**Table 15: Payment Vouchers for Ntcheu DC without Supporting Documents**

<b>SOURCE</b>	<b><u>AMOUNT (K)</u></b>
LDF	8,534,909.00
DHO	20,128,488.31
DDF	<u>16,718,805.00</u>
<b>Total</b>	<b><u>45,382,202.31</u></b>

**NTCHISI DISTRICT COUNCIL**

44. An audit of financial statements for Ntchisi District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

(a) **Fuel not recorded in the fuel register: K26,033,549.10**

Treasury instructions require that fuel purchases should first be recorded in the fuel register before issuing and all issues properly signed for. It further stipulates that motor vehicle and cycle log books should be kept and properly maintained.

It was, however, noted that during the period under audit review the council did not record fuel purchased worth K26,033,549.10. It was therefore difficult for the audit team to ascertain the accountability of

the fuel. Table 16 below has a summary of the unrecorded fuel for each sector.

**Table 16: Fuel for Ntchisi DC not recorded in the fuel register**

<u>Sector/Account</u>	<u>Period</u>	<u>Amount (K)</u>
Headquarters	2010/2011 and 2011/2012	4,901,298.25
DDF	2010/2011 and 2011/2012	1,003,000.00
ASWAP	2010/2011 and 2011/2012	1,847,848.22
Agriculture	2011/2012	255,600.00
Education	2010/2011 and 2011/2012	2,676,000.00
Health	2010/2011 and 2011/2012	15,350,802.63
		<b><u>26,033,549.10</u></b>

- (b) **General stores not recorded in stores ledger: K17,389,733.60**  
 Treasury instructions require that all stores purchased should first be recorded in the stores ledger before issuing and all issued goods be properly signed for to ensure proper accountability.

Contrary to this requirement, the Council did not record stores worth K17,389,733.60 purchased during 2010/2011 and 2011/2012 financial years. Consequently, it was difficult for the audit team to ascertain the disposal of the stores. Table 17 below has the details:

**Table 17: Summary of values of stores not recorded per sector of Ntchisi DC**

<u>Sector/Account</u>	<u>Period</u>	<u>Amount (Mk)</u>
Headquarters	2010/2011 and 2011/2012	3,256,527.83
ASWAP	2011/2012	227,525.06
DDF	2010/2011 and 2011/2012	676,610.00
CDF	2011/2012	8,119,636.60
Health	2010/2011 and 2011/2012	1,835,244.15
Education	2010/2011	3,274,189.06
<b>Total</b>		<b><u>17,389,733.60</u></b>

- (c) **Food and rations not recorded in the ledger: K5,465,723.47**  
 Treasury instructions require that all stores (food and rations) purchased should first be recorded in the stores ledger before issuing and all issues properly signed for to ensure proper accountability.

Contrary to this requirement, the District Health Office (DHO) did not record food and rations worth K5,465,723.47 purchased during 2010/2011 and 2011/2012 financial years. Consequently, it was difficult for the audit team to ascertain the disposal of the food and rations.

- (d) **Revenue not banked (used at source): K933,750.00**  
 Treasury Instructions stipulate that revenue collected must be banked intact and promptly before it is used.

An examination of revenue records and bank deposit slips disclosed that revenue amounting to K933,750.00 collected between July, 2010 and June, 2012 was not banked and there was no evidence to show that authority to spend the revenue at source was granted.

(e) **Over expenditure on some budget lines: K34,964,074.76**

An examination of cashbooks, expenditure returns and detailed revenue and expenditure statements and related records revealed that the Council over-spent on some budget line items amounting to K34,964,074.76 though on overall budget for the whole Council was under spent. The Council overspent on internal travel, fuel, oil and lubricants, maintenance of motor vehicles, formation and maintenance of capital, and food and rations among others. Table 18 below has the details;

**Table 18: Amount of over expenditures on some budget lines according to financial years for Ntchisi DC**

<u>FINANCIAL YEAR</u>	<u>OVER EXPENDITURE (K)</u>
2010-2011	19,014,671.76
2011-2012	<u>15,949,403.00</u>
	<b><u>34,964,074.76</u></b>

**NSANJE DISTRICT COUNCIL**

45. An audit of financial statements for Nsanje District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

**Constituency Development Fund**

(a) **Stores Items Not Recorded In the Stores Ledger: K11,247,002.56**

It is a requirement that all stores items purchased should be recorded in the stores ledger for proper accountability.

An examination of payment vouchers, delivery notes along with the stores ledger revealed that stores items valued at K5,081,587.82 and K6,165,414.74 for 2010/11 and 2011/12 financial years respectively were not recorded in the stores ledger. This made it difficult for the inspecting auditors to ascertain the disposal of the purchased items.

**District Development Fund**

(b) **Payment/Receipted Vouchers Not Produced For Audit**

The Public Audit Act requires that all accounting documents must be produced for audit.

An examination of payment vouchers disclosed that some payment vouchers amounting to K6,217,612.00 and receipted vouchers

amounting to K2,322,660.00 for 2010/11 and 2011/12 financial years respectively were not produced for audit.

#### **District Education Office**

(c) **Payments without Supporting Delivery Notes and Cash Sales: K24,042,277.33**

Treasury Instructions require that all payment vouchers must have supporting documents.

An examination of payment vouchers for Direct Support for Schools (DSS) revealed that payments amounting to K1,825,648.00 and K22,216,579.33 for 2010/11 and 2011/12 financial years respectively had no supporting delivery notes and cash sales to prove that the items were duly delivered.

(d) **Payment Vouchers Not Produced For Audit: K20,929,162.72**

An examination of payment vouchers disclosed that payment vouchers, relating to the period between July, 2010 and June, 2011, amounting to K20,929,162.72 were not produced for audit.

#### **District Health Office**

(e) **Medical Supplies Not Recorded in the Stock Cards: K16,573,230.08**

Treasury Instructions require that all purchases of drugs and other medical supplies should be recorded in the stock cards for proper accountability.

An examination of stores records revealed that drugs valued at K16,573,230.08 for 2011/12 financial year were not recorded in the stock cards. It was, therefore, difficult for the inspecting auditors to ascertain the disposal of the drugs.

(f) **Stock Cards for Medical Supplies Not Produced For Audit: K16,798,906.07**

An examination of payment vouchers along with stock cards disclosed that some stock cards for drugs valued at K16,798,906.07 for 2011/12 financial year were not produced for audit.

#### **PHALOMBE DISTRICT COUNCIL**

46. An audit of financial statements for Phalombe District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

(a) **Payments Made Without Supporting Documents: K7,413,043.91**

Treasury Instructions require all payments to be fully supported by original invoices and any other relevant documentation which should be firmly attached to the payment voucher. An examination of payment

vouchers revealed that payments made between July, 2011 and June, 2012, amounting to K7,413,043.91 were passed for payment without supporting documents as per table 19 below;

**Table 19: Payment Vouchers for Phalombe DC Without Supporting Documents**

<u>SOURCE</u>	<u>AMOUNT (K)</u>
Council Headquarters	5,193,230.67
DDF	<u>2,219,813.24</u>
<b>Total</b>	<b><u>7,413,043.91</u></b>

(b) **Over Payment Not Recovered: K2,000,000.00**

A review of bank statement and reconciliation for the District Health Office prepared for the month of March, 2011 disclosed that on 25th March, 2011, National Bank of Malawi–Mulanje Branch Account number 648868 cleared cheque number 004318 worth MK2,000,000.00 twice without reversal. The payment was made to Holy Family Hospital. Further, it was revealed that the office had not made any action to recover the funds as at the end of 2011/2012 financial year.

(c) **Fuel Purchased In The Name Of Staff (Cash Payments): K2,970,040.00**

Government financial rules and regulations require payments for procurement of goods and services to be made in the business name of the supplier.

Examination of payment vouchers for the DHO disclosed that between August, 2011 and May, 2012, the office made payments amounting to K2,970,040.00 in respect of fuel but the funds were paid in the names of staff.

**RUMPHI DISTRICT COUNCIL**

47. An audit of financial statements for Rumphi District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

(a) **Payments without Supporting Documents: K15,272,074.97**

It is a Government accounting requirement that every payment voucher should be adequately supported by original documents firmly attached to the voucher before payment is made.

However, it was observed that payments totalling K15,272,074.97, made between July, 2010 and June, 2012, were passed without supporting documentation as summarised in the table 20 below;

**Table 20: Payment Vouchers for Rumphi DC without Supporting Documents**

<u>SOURCE</u>	<u>AMOUNT (K)</u>
Council Headquarters	1,016,202.13
CDF	1,997,550.00
DADO	1,319,674.00
DHO	<u>10,938,648.84</u>
<b>Total</b>	<b><u>15,272,074.97</u></b>

(b) **Fuel Not Recorded In Fuel Register: K5,143,144.00**

Financial management principles require that fuel purchased should first be recorded in appropriate registers before usage.

Contrary to this, fuel worth K5,143,144.00, procured between October, 2010 and June, 2012, was not recorded in the fuel register. Table 21 below has the summary of the details;

**Table 21: Fuel for Rumphi DC Not Recorded In Fuel Register**

<u>SOURCE</u>	<u>AMOUNT (MK)</u>
DHO	3,591,053.00
DADO ASWAP	<u>1,552,091.00</u>
<b>Total</b>	<b><u>5,143,144.00</u></b>

(c) **Payment Vouchers Not Produced For Audit: K1,822,381.00**

The PAA gives the Auditor General the right of access to all accounting records.

Contrary to this, payment vouchers for Agriculture Sector, amounting to K1,822,381.00 were not provided for audit review.

**Constituency Development Fund (CDF)**

(d) **Payments for Unknown CDF Projects: K3,036,540.46**

A review of payments relating to CDF account revealed that payments amounting to K3,036,540.46 were made for projects without specifying the projects that were beneficiaries of the funds.

(e) **Use of CDF Funds for the Council's Operations: K3,000,000.00**

Government regulations require that funds meant for one activity should be exclusively used for that activity unless virement authority has been sought and granted to transfer funds from one activity to another.

Contrary to this requirement, Rumphi District Council transferred funds amounting to K3,000,000.00 meant for 2010/11 projects from CDF account to operations account.

## SALIMA DISTRICT COUNCIL

48. An audit of financial statements for Salima District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

(a) **Non Revaluation of Non-Current Assets: K13,139,780.00**

The Local Authority Accounting and Finance Management Procedures Manual section 16.5 requires the Council to revalue its assets and computers after every five years and two years respectively in order to reflect the fair values of the assets. An observation of the financial statement and enquiry from management showed that the Council does not revalue its assets but it carries forward the non-current asset figure of K13,139,780.00 without justification.

(b) **Payments not Properly Authorized: K10,589,500.34**

Treasury instructions require that payment vouchers should be properly authorized by all responsible officers by signing all the payment vouchers in their own handwriting as an evidence of being properly authorized for payment. Section 8.3.1 of the Local Authorities Accounting and Financial Management Procedures Manual states that it is the responsibility of the Director of Finance to authorise a payment voucher and the District Commissioner to countersign. Sector heads are responsible for validating and certifying requests for activities on the expenditure requisition forms, prior to authorisation.

An examination of payment vouchers revealed that payments totalling K10, 589,500.34 were not authorised by the officers responsible.

(c) **Payment Vouchers Without Supporting Documents: K40,021,324.48**

Treasury Instructions and Local Authorities Accounting and Financial Management Procedures Manual Section 5.5.3 and Section 8.3.3 require that adequate supporting documents such as invoices, delivery notes, local purchase orders, certificate of supply of goods and work in progress certificate must be firmly attached to payment vouchers, retained and filed to accord independent checks.

Through an examination of payment vouchers and their supporting documents, it was observed that management processed and passed for payment vouchers totalling K40,021,324.48 which had no supporting documents such as water and electricity bills, invoices and request to leave duty station forms. In the absence of the supporting documents, the inspecting auditors could not ascertain the validity of the expenditure incurred.

(d) **Payments Without Receipted Vouchers: K5,348,830.00**

Treasury instructions require that all allowances paid on behalf of other officer should be fully accounted for by letting the beneficiary sign for

the payment and receipted vouchers should be firmly attached to its payment voucher and properly filed.

An examination of payment vouchers revealed that, allowances worth K5,348,830.00 were paid without receipted vouchers in the years under review.

(e) **Stores Items not Recorded in the Stores Ledger: K23,250,557.97**

Treasury Instructions state that all purchases of stores should be recorded in the stores ledger before issue in order to enhance accountability. Section 20.3 of the Local Authorities Accounting and Financial Management Procedures Manual states that the Council shall maintain a stores ledger that shall record all stores movement and values. Treasury Instructions further states that Controlling Officers must ensure that an efficient system of stores procedures exists within their Ministries and Departments.

An examination of payment vouchers along with delivery notes disclosed that stores totalling K23,250,557.97 were not recorded in the stores ledger. It was, therefore, difficult for the auditors to ascertain their accountability.

(f) **With Holding Tax Not Remitted to MRA: K2,574,570.02**

The Taxation Act, Chapter 41:01 Section 102 requires that Withholding Tax should be deducted at source on all payments for goods and services and be remitted to MRA unless the supplier produces a valid Withholding Tax Exemption certificate.

An examination of payment vouchers revealed that deductions of Withholding Tax on payments for goods and services amounting to K2,574,570.02 were made without remitting to the Tax collecting body as required by the Act.

(g) **Payment Vouchers not Presented for Audit: K27,516,807.71**

An examination of cashbooks, ledgers and payment vouchers for the period under review disclosed that payment vouchers amounting to K27,516,807.71 were not presented for audit and as such it was difficult to ascertain the validity of the expenditure.

## **THYOLO DISTRICT COUNCIL**

49. An audit of financial statements for Thyolo District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

### **District Council ORT**

(a) **Failure to Recover Staff Advances: K1,216,543.02**

The council is owed K1,216,543.02 by members of staff as staff advances. These loans have been outstanding for over four (4) years but the Council is not enforcing repayment.

- (b) **Fuel Not Recorded in the Fuel Register: K20,801,759.02**  
 An examination of payment vouchers disclosed that fuel amounting to K20,801,759.02 purchased in 2010/11 and 2011/12 financial years was not recorded in the Fuel Register. Table 22 below is a summary of the fuel in question by sector;

**Table 22: Fuel for Thyolo DC Not Recorded In Fuel Register**

<u>SOURCE</u>	<u>AMOUNT (K)</u>
Council Headquarters	3,311,159.02
DHO	<u>17,490,600.00</u>
<b>Total</b>	<b><u>20,801,759.02</u></b>

- (c) **Payments Made Without Adequate Supporting Documentation: K31,147,158.92**

Treasury Instructions require that every payment voucher should be adequately supported by original documents and should be firmly attached to the voucher before payment is made.

It was, however, observed that payments amounting to K31,147,158.92 made in 2010/11 and 2011/12 financial years were processed and passed for payment without adequate supporting documentation such a letter of authority to transfer funds, invoices and request to leave duty station forms. Refer to Table 23 below for details;

**Table 23: Payments for Thyolo DC Made Without Adequate Supporting Documentation**

<u>SOURCE</u>	<u>AMOUNT (K)</u>
Council HQ ORT	8,121,292.50
Operations Account	1,314,560.81
LDF	7,561,599.84
DHO	13,427,705.77
DADO	<u>722,000.00</u>
	<b><u>31,147,158.92</u></b>

- (d) **Drawing of Allowances Without Indicating Details of Travel: K2,517,500.00**

Supporting documents to the payment voucher should have complete details. This includes an indication of dates and places of travel where an activity will take place.

An examination of payment vouchers revealed that in some cases supporting documents did not indicate places and dates of travel which raises doubts as to whether the payments were valid. A total of K379,000.00 and K2,138,500.00 was paid without indicating details of travel in 2010/11 and in 2011/12 financial years respectively.

- (e) **Payment Vouchers Not Produced For Audit: K23,061,201.51**  
 Management of the Council failed to produce payment vouchers for financial years of 2010/2011 and 2011/2012 with total amount of K23,061,201.51 for audit. Refer to table 24 for details;

**Table 24: Payment Vouchers for Thyolo DC Not Produced For Audit**

SOURCE	AMOUNT (K)	
Operations	12,197,785.32	Receipted Vouchers
LDF	2,904,630.00	General Payment Vouchers
DHO	<u>7,958,786.19</u>	Receipted Vouchers
<b>Total</b>	<b><u>23,061,201.51</u></b>	

- (f) **Airtime Not Accounted For: K3,565,302.50**  
 Purchased airtime is required to be recorded in a register and all issues signed for by recipients for proper accountability.

However, an examination of records revealed that the Health Sector failed to account for airtime worth K1,855,190.00 in 2010/11 and K1,710,112.50 in 2011/12 as there was no register where all receipts are recorded and issues signed for by recipients.

#### **ZOMBA CITY COUNCIL**

50. An audit of financial statements for Zomba City Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

- (a) **Failure to Remit Pay as You Earn (PAYE) Tax to MRA:K12,480,993.63**

Taxation Laws of Malawi require that the employer must deduct Pay as You Earn (PAYE) from the remuneration paid to employees in accordance with the personal tax bands and rates and that PAYE is to be remitted to MRA within 14 days of the end of the month in which it was deducted.

It was noted that the Council had not remitted PAYE amounting to MK6,658,349.34 and MK5,822,644.29 for 2010/2011 and 2011/2012 financial years respectively. The cumulative figures show that the amount had increased in the 2011/2012 financial year, thereby casting doubt on the possibility of ever settling the amount.

#### **ZOMBA DISTRICT COUNCIL**

51. An audit of financial statements for Zomba District Council for the years ending 30th June 2011 and 2012 was completed in March, 2015. The audit

disclosed some weaknesses in financial control and other related gaps as highlighted in the paragraphs below:

- (a) **Payment vouchers without supporting documents: K4,986,862.20**  
Treasury Instructions stipulate inter alia, that any payment voucher on which an official payment has been made should have sufficient documentation to support the expenditure. Payment vouchers must be accompanied by supporting documents before payment is made.

However, it was observed that Headquarters' ORT payment vouchers amounting to K4,986,862.20 were passed for payment without adequate supporting documents.

- (b) **Fuel not recorded in the fuel register: K2,514,777.00**  
Government standing regulations require that fuel purchased should be properly recorded in the fuel register before being issued.

An examination of payment vouchers disclosed that fuel worth K2,514,777.00 with a breakdown of K1,259,492.00 and K1,255,285.00 for Headquarters' ORT and DHO respectively was purchased but not recorded in the fuel register. Therefore, it was difficult to ascertain whether all fuel purchased was used for the intended purposes.

## **PART IV**

### **CONCLUSIONS AND RECOMMENDATIONS**

#### **CONCLUSION**

52. There are a number of challenges in the Local Councils that will need urgent attention if the decentralization process was to continue achieving its intended purpose. The major challenge continues to be lack of qualified personnel to maintain accounting books and records and timely production of financial statements. Another deficiency that will need immediate attention is lack of strong systems of internal control in the Councils.

The following main observations were noted during the audit:—

- Ineffective internal control systems leading to unaccountability of funds
  - Non Valuation of Councils Non-Current Assets
  - CDF funds were not properly accounted for.
  - Flouting of procurement regulations in both Local Councils and CDF funds.
  - Although Government introduced Integrated Financial Management Information System (IFMIS) in the endeavor to improve financial management and expenditure control, it has not fully been rolled out to Councils such that most councils were still using manual systems in processing financial transactions. This has continued to pose a big challenge in as far as processing financial transactions and reporting is concerned. It is my hope that once the IFMIS is rolled out including full implementation of the Public Finance Management Act, Public Audit Act and Public Procurement Act, City and District Councils will experience improved public expenditure management and control.
53. Notwithstanding the above mentioned irregularities, visits to project sites in most Constituencies disclosed that the Constituency Development Fund projects had been undertaken and continue to contribute positively to the wellbeing of the constituents.

#### **RECOMMENDATIONS**

54. In the course of my audit of the Financial Statements of Local Councils, each District Commissioner and Chief Executive was sent appropriate management letter with recommendations; regrettably, few have submitted their responses within the stipulated period under section 14 of the Public Audit Act.

A summary of my recommendations included:—

- Councils should ensure that financial reporting is in line with the International Public Sector Accounting Standards and relevant financial authorities

- Councils should ensure that all assets of the Council are valued by professional valuers. There is need to develop an effective system of accounting and internal control to institute measures to ensure that the system is operating effectively.
- There is need to improve procurement procedures and systems in all Councils and the Office of the Director of Public Procurement should be requested to assist in training of personnel in procurement procedures in the Councils.

There is need to strengthen management of the CDF and in this regard, the following measures are recommended for immediate implementation by all Councils

- Management in the Councils should strengthen the systems of internal control and supervision;
- All payments should be properly approved, countersigned and supported by relevant documentation;
- Management of the Councils should desist from the misapplication of Constituency Development Funds; and
- Management of the Councils should ensure that proper record management is in place to avoid loss of supporting documents and failure to account for fuel and stores.

30th June, 2016

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## GLOSSARY

### **Unqualified Opinion**

An unqualified opinion is expressed when the auditor concludes that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. (ISSAI 1700.16).

When expressing an unqualified opinion, the opinion paragraph of the Auditor General's report states that the financial statements give a true and fair view or present fairly, in all material respects, in accordance with the applicable financial reporting framework.

**Adverse Opinion** is expressed when the effects of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements; and (ISSAI 1705.8)

**Qualified Opinion** is expressed when the auditor having obtained sufficient appropriate audit evidence concludes that there are material misstatements in the financial statements or if the auditor cannot obtain adequate evidence on aspects of the audit. Qualified opinion is issued when the misstatement or limitation on scope is not as material and pervasive as to require an adverse opinion or a disclaimer of opinion. It is expressed as being 'except for' the effects of the matter to which the qualification relates. (ISSAI 1705.7)

**Disclaimer of Opinion** is expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements. A disclaimer opinion may also be issued considering the potential cumulative effect of uncertainties even when all audit evidence is received. (ISSAI 1705.9; 10) (ISSAI 1705 P10)

Emphasis of Matter paragraph refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. (ISSAI 1706.5)

### **Modified Audit Opinions**

The auditor appropriately modifies the opinion in the Auditor's report when the auditor:

- Concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- Is unable to obtain sufficient appropriate audit evidence. (ISSAI 1700.4;6;17) (ISSAI 1705.6)
- Determines that the auditee did not comply with responsibilities prescribed by the financial reporting framework to:

- Achieve fair presentation of financial information when it is a fair presentation framework;
- Fulfil all requirements of the financial reporting framework when it is a compliance framework. (ISSAI 1700.18;19)
- Any additional audit requirements, such as non-compliance with legislation or internal control weakness which has a material or pervasive effect on the financial statements as it is not adequately disclosed or accounted for. (ISSAI 1705 P4;P5;P6)

**Other Matter paragraph** includes findings relating to matters relevant to the users of the report as under the Emphasis of Matters paragraph but not presented or disclosed in the financial statements. The auditor includes this paragraph immediately after the Opinion paragraph and any Emphasis of Matter paragraph, or elsewhere in the report (ISSAI 1706.5; 8; P5)

Other matter paragraphs normally include control weaknesses, non-compliance with laws and regulations as applicable.

**Pervasive** is a term used to describe the effects on the financial statements of misstatements or possible effects if any that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasiveness of the finding will determine the kind of modified audit opinion which will be issued.

Pervasive effects on the financial statements are those that, in the auditor's judgment:

- Are not confined to specific elements, accounts or items of the financial statements;
- Represent or could represent a substantial proportion of the financial statements; or
- Fundamental to users' understanding of the financial statements. (ISSAI 1705.5)

The auditor selects the most appropriate modified opinion from the 3 options described above.

### **National Local Government Finance Committee**

The National Local Government Finance Committee (NLGFC) is a body established under the provisions of Section 149 of the Constitution and regulates the Local Authority accounting and financial management system. Among others, the roles of the NLGFC include the following:

- (a) Providing policy guidelines regarding the Local Authority accounting and financial management system;
- (b) receive all estimates of revenue and all projected budgets of all local government authorities;

- (c) make recommendations relating to the distribution of funds allocated to local government authorities, and vary the amount payable from time to time and area to area according to, and with sole consideration of, economic, geographic and demographic variables;
- (d) Ensuring that Council budgets are prepared in accordance with policy guidelines and set procedures and that development programmes are in line with national priorities;
- (e) prepare a consolidated budget for all local government authorities and estimates after consultation with the Treasury, which shall be presented to the National Assembly by the Minister responsible for Local Government before the commencement of each financial year;
- (f) Providing technical support and supervision in the preparation of Local Authority final accounts;
- (g) Facilitating the external audit of Local Authority final accounts by the Auditor General;
- (h) Following up on audit queries arising from the audit of Local Authorities and imposing surcharges on officers responsible for financial mismanagement:

#### **Constituency Development Fund**

Constituency Development Fund (CDF) is a fund which was established in 2006/2007 financial year to cater for immediate to short term projects as initiated by Members of Parliament.

#### **General Resource Fund**

The General Resource Fund (GRF) represents unconditional grant by Central Government to the Local Authorities in line with Decentralization Policy.

#### **Sector funds**

Sector funds represent conditional grants from Central Government to the Local Authorities in support of the devolved (Other Recurrent Transactions) functions.

#### **Sources of Revenue**

The major sources of locally generated revenue for the Local Authorities include property rates, market fees, collections from commercial undertakings, user fees and charges and business permits.