

**REPORT OF THE AUDITOR GENERAL**  
**ON THE**  
**ACCOUNTS OF LOCAL COUNCILS**

For The Year Ended 30th June, 2017

**NATIONAL AUDIT OFFICE (NAO)  
SUPREME AUDIT INSTITUTION OF MALAWI**

<b>VISION STATEMENT</b>	:	“To be an independent Supreme Audit Institution that promotes good governance.”
<b>MISSION STATEMENT</b>	:	“To provide assurance on accountability, transparency, integrity and value for money in the management of public resources to all stakeholders through quality audits.”
<b>CORE VALUES</b>	:	Professional competence, behaviour and due care, Integrity; Objectivity; Independence; Confidentiality; Transparency & Accountability; Inclusiveness, Creativity and innovation and Public Interest Oriented

Telephone No.: + 265 1 770 700  
Facsimiles: + 255 1 773 071  
+ 255 1 774 138  
+ 255 1 776 125  
E-mail: nao@comw.net



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

27th July, 2018

The Right Honourable Speaker  
National Assembly  
Private Bag B362  
Capital City  
Lilongwe 3

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

Dear Sir,

Pursuant to the provisions of Section 184 (2) of the Constitution of the Republic of Malawi and the Section 15 of the Public Audit Act of 2003, I have the honour to submit my report on the results of the audit of the Accounts of Local Councils for the year ended 30th June, 2017 for tabling in the National Assembly.

Yours faithfully,

A stylized handwritten signature in black ink, consisting of a large 'T' and 'B' intertwined.

THOMAS K. B. MAKIWA  
*Acting Auditor General*

## TABLE OF CONTENTS

	PAGES
ACRONYMS .. .. .	v
LIST OF FIGURES .. .. .	vi
LIST OF TABLES .. .. .	vi
PART I	
BACKGROUND AND GENERAL INFORMATION .. .. .	1
Scope of Audit .. .. .	3
Audit Methodology .. .. .	4
Audit Reports .. .. .	4
Audit Opinions .. .. .	4
PART II	
STRUCTURE AND OVERALL PERFORMANCE .. .. .	6
Financial Management and Administration Policies .. .. .	6
Budgeting process .. .. .	6
Accounting and financial reporting for local authorities .. .. .	7
Analysis of the Major Findings .. .. .	8
PART III	
AUDIT RESULTS OF THE COUNCILS .. .. .	15
General audit observations .. .. .	15
Accounting Records and Preparation of financial Statements. .. .. .	15
Accounting for Non-Current Assets .. .. .	16
Bank Reconciliation Statements .. .. .	16
SPECIFIC AUDIT FINDINGS .. .. .	17
BALAKA DISTRICT COUNCIL .. .. .	17
BLANTYRE DISTRICT COUNCIL .. .. .	18
CHIKWAWA DISTRICT COUNCIL .. .. .	20
CHIRADZULU DISTRICT COUNCIL .. .. .	22
CHITIPA DISTRICT COUNCIL .. .. .	27
DEDZA DISTRICT COUNCIL .. .. .	28
DOWA DISTRICT COUNCIL .. .. .	35
KARONGA DISTRICT COUNCIL .. .. .	38
KASUNGU DISTRICT COUNCIL .. .. .	41
KASUNGU MUNICIPAL COUNCIL .. .. .	44
LIKOMA DISTRICT COUNCIL .. .. .	46
LUCHENZA MUNICIPAL COUNCIL .. .. .	48
MACHINGA DISTRICT COUNCIL .. .. .	50
MANGOCHI DISTRICT COUNCIL .. .. .	57

MCHINJI DISTRICT COUNCIL	..	..	..	..	60
M'MBELWA DISTRICT COUNCIL		..	..	..	63
MULANJE DISTRICT COUNCIL	..	..	..	..	66
MWANZA DISTRICT COUNCIL	..	..	..	..	68
MZUZU CITY COUNCIL	..	..	..	..	71
NENO DISTRICT COUNCIL	..	..	..	..	76
NKHATABAY DISTRICT COUNCIL		..	..	..	79
NKHOTAKOTA DISTRICT COUNCIL		..	..	..	83
NSANJE DISTRICT COUNCIL	..	..	..	..	86
NTCHEU DISTRICT COUNCIL	..	..	..	..	90
NTCHISI DISTRICT COUNCIL	..	..	..	..	93
PHALOMBE DISTRICT COUNCIL		..	..	..	96
RUMPHI DISTRICT COUNCIL	..	..	..	..	99
SALIMA DISTRICT COUNCIL	..	..	..	..	102
THYOLO DISTRICT COUNCIL	..	..	..	..	105
ZOMBA CITY COUNCIL	..	..	..	..	107
ZOMBA DISTRICT COUNCIL	..	..	..	..	110
PART IV	..	..	..	..	113
CONCLUSIONS AND RECOMMENDATION			..	..	113
RECOMMENDATION	..	..	..	..	114
GLOSSARY	..	..	..	..	115

## ACRONYMS

CDF:	Constituency Development Fund
DAHSP:	Decent and Affordable Housing Subsidy Programme
DC:	District Commissioner
DDF:	District Development Fund
GRF:	General Resource Fund
IFMIS:	Integrated Financial Management Information System
IPC:	Internal Procurement Committee
IPSAS:	International Public Sector Accounting Standards
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 and Disposal of Public Assets no 41 of 2016

## **LIST OF FIGURES**

- Figure 1: Budgeting process for the Councils
- Figure 2: Budget preparation for Councils
- Figure 3: Summary of Major Common Findings in Malawi Kwacha
- Figure 4: Payments without supporting documents by Council in Malawi Kwacha
- Figure 5: Breach of Procurement Laws
- Figure 6: Fuel Not Recorded/Not Signed for In The Registers by Councils
- Figure 7: Documents Not Provided for Audit Inspection
- Figure 8: Other Significant Irregularities
- Figure 9: Stores Not Recorded/Ledger Not provided
- Figure 10: Failure to Remit Tax to MRA
- Figure 11: Failure to record transactions in the cashbook
- Figure 12: Construction Materials not delivered

## **LIST OF TABLES**

- Table 1: Table 1a: An analysis of other isolated irregularities by Council in Malawi Kwacha.
- Table 1b: Local Councils' General Resource Fund Performance For 2017
- Table 2: Market Fees Not Recorded In The Cash Book-Chiradzulu DC
- Table 3: Payment Vouchers Without Supporting Documents- Chiradzulu DC
- Table 4: Fuel Not Accounted For: Chiradzulu DC
- Table 5: Payment Vouchers not Produced for Audit: Chiradzulu DC
- Table 6: Airtime Not Accounted For- Chiradzulu DC
- Table 7: Purchased Stores Not Accounted For- Chiradzulu DC
- Table 8: Procurement Without Involving IPC-Dedza DC
- Table 9: Failure to source three quotations- Dedza DC
- Table 10: Payment Vouchers Without Supporting Documents- Dedza DC
- Table 11: Fuel Not Recorded in the Log Books- Dedza DC
- Table 12: Receipted Vouchers Not Produced For Audit- Dedza DC
- Table 13: Fuel Not Entered In The Fuel Register- Dedza DC
- Table 14: Payment Made Without Preparing a Payment Voucher- Dedza DC
- Table 15: Funds Not Accounted For- Dedza DC
- Table 16: Projects Not In Existence- Dedza DC
- Table 17: Payment Vouchers not produced-Karonga DC
- Table 18: Project Materials Not Accounted For-Karonga DC
- Table 19: Failure to Produce Activity Reports-Kasungu DC
- Table 20: Fuel Not Accounted For-Kasungu DC
- Table 21: Stores Not Accounted For-Kasungu DC
- Table 22: Standard Construction Works Not Worth Contract Amount -Kasungu Municipal
- Table 23: Misallocations of expenditure to other budget lines-Machinga DC

Table 24:	Stores not accounted for in the stores ledger-Machinga DC
Table 25:	Fuel not accounted for in the register-Machinga DC
Table 26:	Payments not reflected in the cashbook -Machinga DC
Table 27:	Purchase of airtime not accounted for-Machinga DC
Table 28:	Payment of subsistence allowances without supporting authority "to leave duty station forms": -Machinga DC
Table 29:	Non-existence of projects deliverables -Machinga DC
Table 30:	Payment Vouchers Not Presented for Audit -Mchinji DC
Table 31:	Payment Vouchers Not Presented for Audit -M'Mbelwa DC
Table 32:	Failure to Remit Tax to MRA-M'Mbelwa DC
Table 33:	Failure to Record Items in Stores Register -M'Mbelwa DC
Table 34:	Unpresented Payment Vouchers -Mulanje DC
Table 35:	Non Maintenance of Revenue Cash Book -Mwanza DC
Table 36:	Payments Made For Undelivered Items -Mwanza DC
Table 37:	Items Purchased But Not Accounted For -Mwanza DC
Table 38:	Fuel Not Accounted For -Mwanza DC
Table 39:	Payments Made Outside IFMIS -Mwanza DC
Table 40:	Payment Vouchers Without Supporting Documents- -Mzuzu City Council
Table 41:	Procurement Made Without IPC Approval -Mzuzu City Council
Table 42:	Dambe Court Construction Below Window Level But Fully Paid For -Neno DC
Table 43:	Payment Vouchers Not Entered In Cashbook: -Nkhatabay DC
Table 44:	Payment Vouchers Without Supporting Documents: -Nkhatabay DC
Table 45:	Stores Items Not Recorded In Stores Ledgers: -Nkhatabay DC
Table 46:	Fuel Not Recorded In Fuel Register: -Nkhatabay DC
Table 47:	Payment vouchers not presented for audit: -Nkhatabay DC
Table 48:	Failure to Prepare Bank Reconcilliation: -Ntchisi DC
Table 49:	Payment Vouchers Without Supporting Documents: -Ntchisi DC
Table 50:	Purchases Made Without Obtaining Three Quotations: -Ntchisi DC
Table 51:	Stores Not Accounted For: -Ntchisi DC
Table 52:	Fuel Purchased Not Accounted For: -Ntchisi DC
Table 53:	Fuel Purchased Not Accounted For: -Phalombe DC
Table 54:	Payment Vouchers Not Presented for Audit: -Rumphi DC
Table 55:	Failure To Produce financial records for Audit: -Salima DC
Table 56:	Procurement Without IPC Approval: -Salima DC
Table 57:	Payment Vouchers Without Supporting Documents: -Salima DC
Table 58:	Fuel not accounted For: -Salima DC
Table 59:	Stores Not Recorded In The Stores Ledger: -Salima DC
Table 60:	Subsistence allowances paid within duty station: -Salima DC
Table 61:	Interest charges to unsettled debt: -Salima DC
Table 62:	Pay As You Earn balance unremitted with MRA-Zomba City Council
Table 63:	Payment Vouchers Not Produced For Audit: - Zomba City Council
Table 64:	Irregular Payment in transportation of Constituency Development Fund borehole materials: - Zomba City Council
Table 65:	Payments made for projects that do not exist: - Zomba DC



## **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 and other financial information of City, Town and District Councils for the year ended 30th June, 2017.

### **Scope of Audits**

I conducted compliance audit in all the 34 councils in Maiawi covering the year ended 30th June 2017. However, an audit of financial statements was conducted in 20 councils only since the financial statements for the remaining 14 were not ready. 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. The Twenty audit were conducted on my behalf by SizweNtsalubaGobodo (SNG) and AMG Global with financial assistance from KFW.

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.

## **Findings**

The following main observations were noted during the audit:—

- Documents not provided for audit inspection
- Payments without supporting documents
- Failure to maintain a Fixed Asset Register
- Poor Fuel Management
- Poor Stores Management
- Failure to record transactions in the cashbook
- Unauthorised Payments
- Breach of the provisions of the Public Procurement Act and its related Regulations.
- Failure to Prepare Bank Reconciliation Statements
- Non-remittance of PAYE and other tax to Malawi Revenue Authority
- Construction materials for projects not delivered
- Payment for no work done or Non Existent CDF Projects
- Failure to produce financial statements

## **General Recommendations**

- The Councils should be staffed with qualified personnel, who will be able to adequately maintain accounting books.
- Councils should ensure that the Fixed Asset Register is maintained for accountability of Non-Current assets.
- There is need to develop an effective system of accounting and internal control and to institute measures to ensure that the system is operating effectively.
- There is need for Councils to adhere to procurement procedures. The Office of the Director of Public Procurement and Disposal of Assets should be requested to assist in training of personnel in procurement procedures in the 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 ensure that proper records management is in place to avoid loss of supporting documents and to ensure that fuel and stores are properly accounted for.
- The Councils should ensure proper coordination with Members of Parliament (especially on CDF project management) to ensure that there is adherence to laws and regulations
- The Councils should ensure that the statutory deadline for the production of financial statements should be adhered to at all times
- The Ministry of Local Government and Rural Development should ensure that there is no frequent rotation and turnover of accounting staff which has greatly impacted on the performance of councils.

## **Acknowledgement**

I wish to place on record my profound gratitude and appreciation to staff in my office, auditors, SizweNtsalubaGobodo (SNG) and AMG Global who carried out their duties diligently during the audit of the Councils. I also wish to express my profound diligently gratitude and appreciation to KFW for the financial support on audits of twenty Councils.

I also wish to acknowledge the assistance and cooperation rendered by the Ministry of Finance, Economic Planning and Development, Economic Planning and Development, the Accountant General, the National Local Government Finance Committee, District Commissioners, Chief Executive Officers and their staff during the period under audit. 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 principal 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 forward the report to the President and to the Speaker of National Assembly, this is somehow inconsistent with the Constitution as explained in paragraph 1 above. Consultations with the Law Commission and relevant stakeholders have been initiated to have the inconsistency cleared. The issue is still work in progress.
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.
  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. Subsection (2) of the same requires the Councils to submit the final accounts to the National Local Government Finance Committee and shall 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;
- (f) 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 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. I conducted compliance audit in all the 34 councils in Malawi covering the year ended 30th June 2017. However, an audit of financial statements was conducted in 20 councils only since the financial statements for the remaining 14 were not ready.

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 Opinion**

14. For the year ended 30th June 2017, I issued a Disclaimer of Opinion in the following twenty Councils; Balaka DC, Blantyre City, Blantyre District, Chikwawa District, Chitipa District, Dowa District, Karonga District, Kasungu District, Likoma District, Luchenza Municipal, Machinga District, Mangochi District, Mangochi Town, Mchinji District, Mulanje District, Mzuzu City, Nsanje District, Phalombe District, Thyolo District and Zomba City.



This implies that I was unable to express an opinion on the Financial Statements due to material differences between Financial Statements and underlying records. I did not issue an opinion on the rest of the fifteen councils because they did not prepare the financial statements for the year ended 30th June 2017. Such councils are; Chiradzulu District, Dedza District, Kasungu Municipal, Lilongwe District, Lilongwe City, M'mbelwa District, Mwanza District, Neno District, Nkhatabay District, Nkhatakota District, Ntcheu District, Ntchisi District, Rumphu District, Salima District and Zomba District.

## 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:—

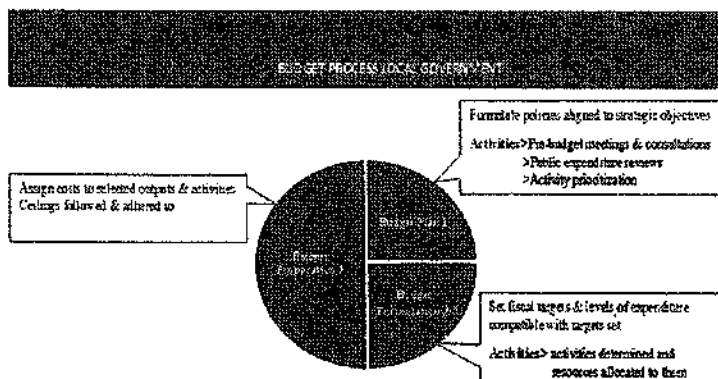
- The Constitution of the Republic of Malawi, 1994;
- The Public Finance Management Act (PFMA), 2003;
- The Public Audit Act (PAA), 2003;
- The Public Procurement Act (PPA), 2003;
- The Local Government Act (LGA), 1998;
- The Corrupt Practices Act (CPA), 1998; and
- By-laws of the Local Authority

#### Budgeting process

16. The Budgeting guidelines used in the Local Authorities were developed by Ministry of Finance, Economic Planning and Development. 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 are shown in Figure 1 below:

#### BUDGETING PROCESS FOR THE COUNCILS

##### Budgeting Process Local Government



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 1: Budgeting process for the Councils**

**17. Budget planning**

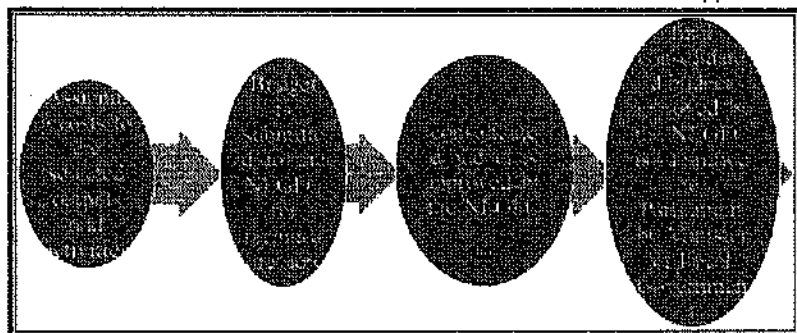
- involves formulating policies aligned to strategic objectives and priorities at both micro and macro level; and
- activities include Pre-budget meetings and consultations, public expenditure reviews and activity prioritization.

**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 2: 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:**

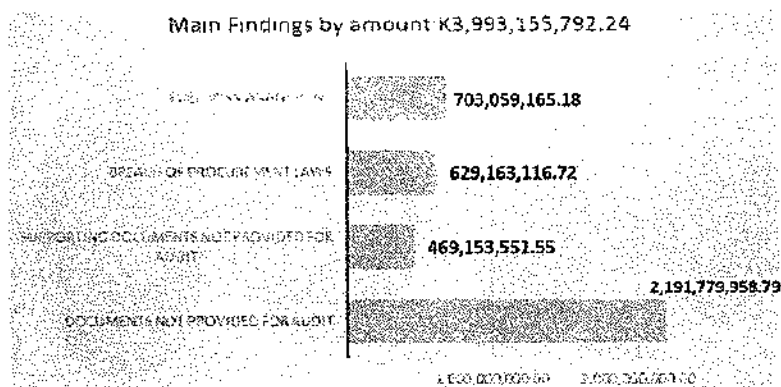
- To receive all estimates of revenue and all budgets of local authorities;
- To prepare a consolidated budget for all local authorities' annual revenue and expenditure estimates in consultation with the Ministry of Finance, Economic Planning and Development for presentation to the National Assembly 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.

### Analysis of the Major Findings

- 22 The analysis using figures below would provide an overview of the general picture in terms of how Councils are operating and its effects when it comes to financial reporting and non-compliance with various financial Laws, regulations and procedures.

The main findings are summarised in the chart below;



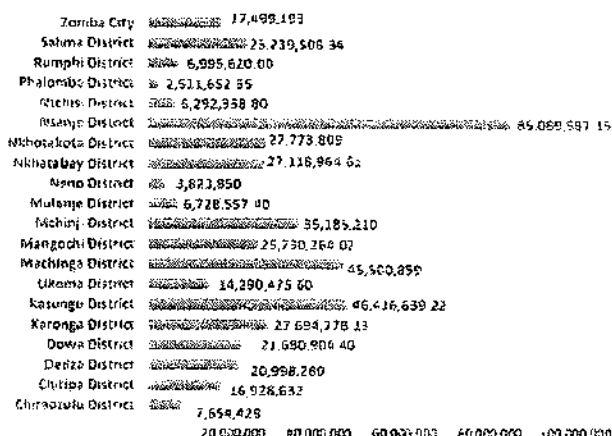
**Figure 3: Summary of Major Common Findings in Malawi Kwacha**

The Figure 3 above depicts how non-compliance can affect the truth and fairness of the financial reports if significant amounts of money used are not properly recorded in the books of accounts for purpose of objective reporting. This can mislead and/or misinform the reader of such reports.

## Main Findings by Council

### (a) Value of payment vouchers (in MK) without Supporting Documents attached: K469,153,552.00

Unsupported Payments: K469,153,552

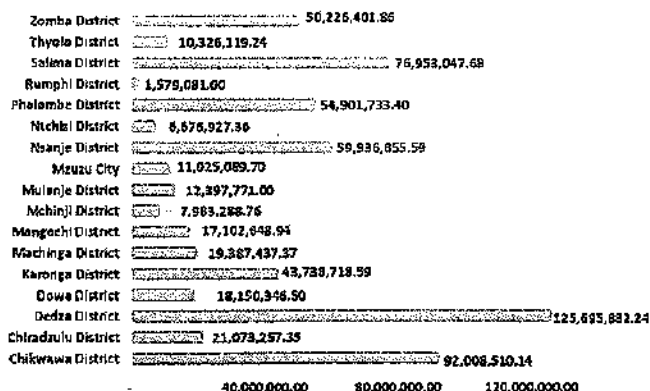


**Figure 4: Value of payments vouchers without supporting documents by Council in Malawi Kwacha**

The above Figure shows how each Council failed to attach the supporting documents which is important when substantiating the validity of payment transactions. This would encourage unauthorized and fraudulent transactions to occur.

### (b) Breach of Procurement Regulations : K629,163,117.00

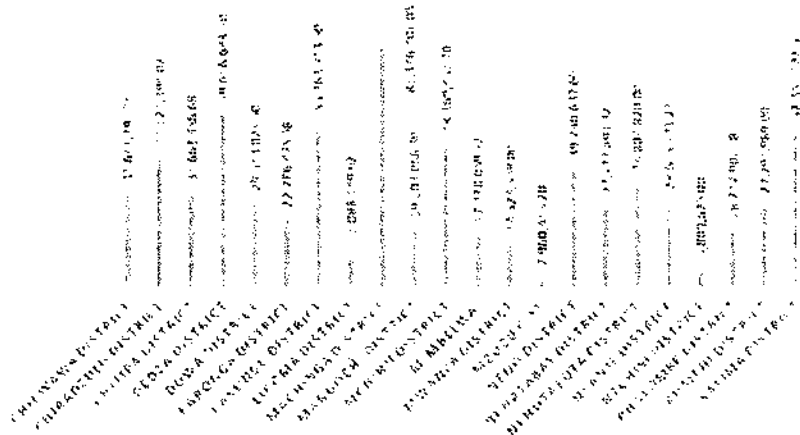
Procurement Breach: K629,163,117.00



## Figure 5: Breach of Procurement Laws

Figure 5 shows the value of payments whose procurement rules and regulations were flouted by Council.

### (c) Fuel Mismanagement by Council and Amount : K703,059,165.18



## Figure 6: Fuel Mismanagement by Council in Malawi Kwacha

Figure 6 above depicts the monetary value of fuel not properly accounted for through ledgers and log books in various Councils.

### (d) Documents Not Provided for Audit Inspection: K2,191,779,958.79

Document Not Provided for Audit: K2,191,779,958.79

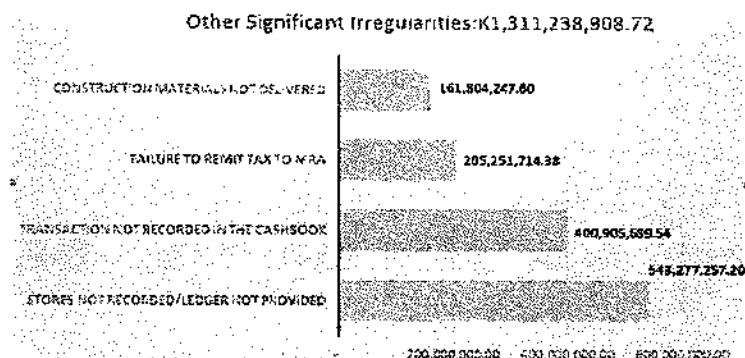
Zomba City	17,465,662.31
Thyolo District	25,623,802.50
Salima District	452,441,378.19
Rumpuli District	501,016,379.00
Phalombe District	24,848,031.40
Ntchisi District	28,130,570.00
Karanga District	120,817,712.73
Nkhosato District	84,673,565.00
Mchinge District	29,736,250.00
Neno District	54,122,210.07
Mtshwato City	71,875,410.00
Mulanje District	37,926,956.40
M'mbelwa	187,370,173.00
Mchinji District	209,443,065.00
Mangochi District	22,934,953.86
Machinge District	88,499,352.00
Likoma District	1,804,640.00
Kasungu Municipality	46,266,701.00
Kasungu District	12,978,166.00
Karonga District	51,003,840.26
Dowa District	19,290,343.00
Dedza District	12,365,882.14
Chitwa District	3,218,000.00
Chitwa District	78,326,986.00
Chitwa District	8,499,948.00

## Figure 7: Documents Not Provided for Audit Inspection

The above graph shows how each Council failed to present documents for audit inspection. This would encourage unauthorized and fraudulent transactions to occur.

## Other Significant Irregularities: K1,311,238,908.72

- 22 There were other significant findings that were noted during the audit. These will also be presented by figures below:

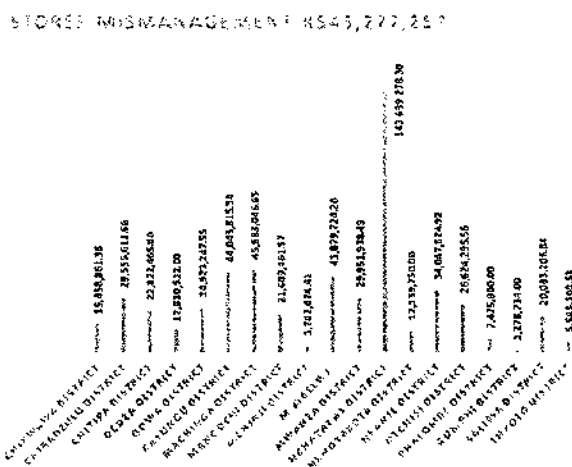


## Figure 8: Other Significant Irregularities

The above graph shows that apart from the main findings above, there were other irregularities which were also quite significant. These include; Stores Not Recorded/Ledger Not provided, Failure to remit tax to MRA, Transactions not recorded in the cashbook as well as Construction materials for projects not delivered.

## Other Significant Irregularities by Council

### (a) Stores Mismanagement: K543,277,257.20

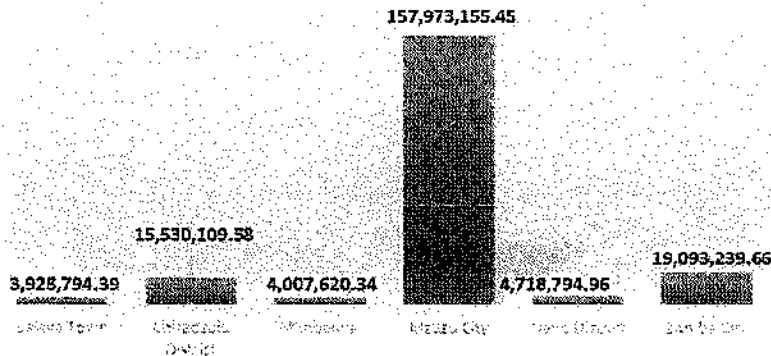


### Figure 9: Stores Not Recorded

The above graph presents by Council the value of stores that were not recorded in the ledgers Council Council managed the Stores.

#### (b) Failure to Remit PAYE to MRA:K205,251,714

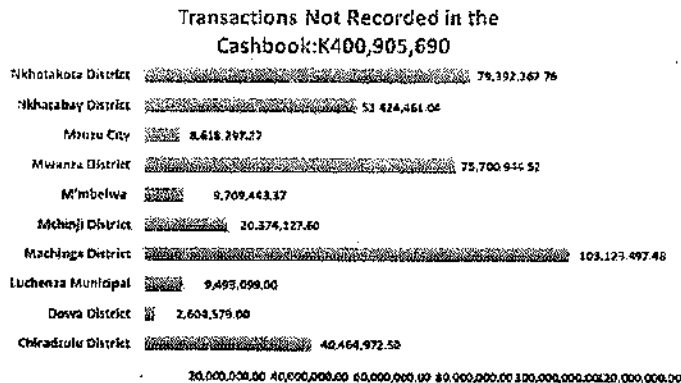
Failure to Remit Tax to MRA:K205,251,714



### Figure 10: Failure to Remit PAYE to MRA

The above graph presents by figure and Council on how the Councils failed to comply with Tax Regulations.

#### (c) Value of Transactions Not Recorded in the Cashbook: K400,905,690



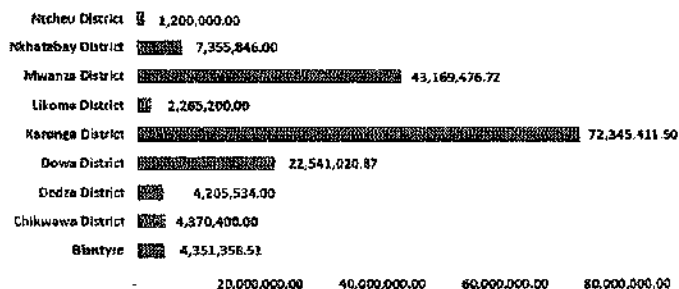
### Figure 11: Value of Transactions Not Recorded in the Cashbook

Figure 11 above depicts the amounts for which were not recorded in the cashbook. The risk is that the figures in the Financial Statements may be materially misstated. This is a reflection of poor internal controls in record management.



**(d) Value of Construction Materials Not Delivered: K161,804,248**

**Construction Materials not Delivered:K161,804,248**



**Figure 12: Construction Materials not delivered**

Figure 12 above depicts some significant amounts construction materials that were paid for but without any evidence of delivery and/or acknowledgement of receipt by the beneficiary. This can negatively affect implementation of construction projects and citizens could be deprived of the services and benefits that would have emanated from use of such facilities.

**Other Isolated Irregularities**

I now present a third category of irregularities by Council.

Table 1a: The Table below provides an analysis of other isolated irregularities by Council in Malawi Kwacha

COUNCIL	Un Authorized Payments	Misallocations	Payment for no work done or Non Existent CDF Projects	Ineligible Expenditure
Balaka		9,033,265.52		
Blantyre	9,976,749.60	2,327,860.00		
Chikwawa		4,201,552.00		
Chiradzulu	22,888,162.00			
Chitipa District		3,906,895.89		
Dedza District		3,955,213.66	4,767,454.94	
Karonga District		10,901,729.67		
Luchenza Municipal	43,378,116			
Machinga District		20,109,190.60	19,870,569.79	
Mangochi District				8,030,000.00
Mchinji District	25,006,120			6,297,546.50
Mzimba		7,581,411.00	8,197,305.52	
Muzu City		11,087,517.20		
Neno District		6,531,987.73		
Nkhoshe District		19,732,600.00		
Rumphi District		5,880,551.47	23,047,430.00	
Zomba City			51,396,200.00	
Zomba District			10,793,425.15	
<b>TOTAL</b>	<b>101,249,147.45</b>	<b>105,549,874.78</b>	<b>118,072,465.40</b>	<b>14,327,546.50</b>

## Local Councils' General Resource Fund Performance For 2017

- 23 The 2017 General Resource Fund (GRF) for Local Councils had a total of approved budget of K35.4 billion which was revised to K44.6 billion. Actual Expenditure was K31.8 billion resulting into an under expenditure of K12.8 billion. This translates to 71 percent expenditure over revised budget. There is a K343.7 million decrease in GRF expenditure by Local Councils as compared to the K32.2 billion for 2016 which translates to a 1 percent decrease.

Table 1b below has the details.

**Table 1b: Local Councils' General Resource Fund Performance For 2017**

Details	2016/2017	2016/2017	2016/2017	2016/2017	% of Actual Exp. Against Revised Budget
	Approved Budget	Revised Budget	Actual Expenditure	Variance	
	K'000	K'000	K'000	K'000	
Blantyre City Council	3,121,881	4,425,859	3,949,229	476,630	89
Lilongwe City Council	3,067,927	3,955,345	3,655,037	3,083,308	92
Mzuzu City Council	1,862,126	1,685,952	1,742,216	791,736	52
Zomba City Council	1,786,231	1,130,402	908,634	271,768	77
Kasungu Municipality Council	49,650	240,864	121,125	119,739	50
Lochenga Municipality Council	48,905	122,396	41,963	80,433	34
Mangochi Town Council	51,832	243,741	176,151	78,590	68
Balela District Council	700,138	943,443	228,740	714,703	24
Blantyre District Council	1,112,936	1,428,891	1,107,731	321,160	78
Chikwawa District Council	875,636	1,120,472	472,387	648,086	42
Chiradzulu District Council	654,135	852,777	885,809	(13,031)	104
Chitipa District Council	625,621	836,661	683,835	143,006	83
Dedza District Council	1,158,510	1,512,048	1,229,185	282,864	81
Dowa District Council	1,032,302	1,376,947	1,220,129	156,819	89
Karonga District Council	700,152	995,873	505,694	91,579	91
Kasungu District Council	1,247,936	1,555,974	1,523,099	232,875	85
Likoma District Council	162,498	228,910	132,172	96,737	58
Lilongwe District Council	2,314,531	2,894,684	2,505,895	388,879	87
Machinga District Council	891,827	1,216,526	983,829	232,698	81
Mangochi District Council	1,365,122	1,653,251	1,573,946	84,341	95
Mchinik District Council	805,860	1,159,286	984,643	175,243	85
Mtshwanda District Council	1,661,636	2,038,291	1,650,492	407,708	80
Mulanje District Council	1,029,213	1,343,074	1,117,164	225,911	83
Mwanza District Council	392,166	552,582	303,839	248,742	55
Neno District Council	444,707	580,383	309,639	279,745	53
Nkhata Bay District Council	826,824	1,031,564	883,120	148,443	86
Nkhosla District Council	797,941	986,035	421,349	554,675	44
Nsanje District Council	656,326	875,755	467,310	406,445	53
Ntcheu District Council	1,043,293	1,303,917	898,032	405,886	69
Ntchisi District Council	615,672	806,569	675,838	129,722	84
Phalombe District Council	655,323	874,643	783,798	90,845	90
Rumphi District Council	635,594	814,570	695,551	119,018	85
Salima District Council	756,509	1,020,395	431,039	619,356	41
Thyolo District Council	1,034,846	1,300,880	1,185,368	117,512	91
Zomba District Council	1,157,987	1,619,675	846,495	573,180	60
	35,392,696	44,615,358	31,844,466	12,770,932	71

**PART III**  
**AUDIT RESULTS OF THE COUNCILS**

**General audit observations**

24. An audit of financial statements of the Local Councils for the year ended 30th June 2018 was completed in August, 2017. Between September, 2017 and June, 2018, I engaged the Controlling Officers (District Commissioners and Chief Executive Officers) to provide responses to the observations raised in their respective management letters. Further, reference sheets were issued to them as a final reminder. The findings included in this report relate to the observations that were not satisfactorily responded to in both the Management Letters and Reference Sheets. Observations of some Councils may not necessarily appear in this report because they were resolved at management level. The Councils which were audited are Balaka District, Blantyre City, Blantyre District, Chikwawa District, Chiradzulu District, Chitipa District, Dedza District, Dowa District, Karonga District, Kasungu District, Kasungu Municipality, Likoma District, Lilongwe City, Lilongwe District, Luchenza Municipal, M'mbelwa, Machinga District, Mangochi District, Mchinji District, Mulanje District, Mwanza District, Mzuzu City, Neno District, Nkhatabay District, Nkhota-kota District, Nsanje District, Ntcheu District, Ntchisi District, Phalombe District, Rumphu District, Salima District, Thyolo District, Zomba City and Zomba District.

Most of the audit findings are recurring. Management of the Councils should take issues of accountability seriously. The audit disclosed the following internal control weaknesses which cut across all the Councils.

**Accounting for Financial Resources**

25. 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 and Preparation of Financial Statements.**

26. Local Government Act of 1998 Sections 53 (1) 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. This has been evidenced by significant differences between the figures in the financial statements and the underlying records as well as lack of supporting schedules for the figures as presented in the financial statements, hence issuance of the twenty disclaimers of opinion. For fourteen Councils, I failed to express an opinion on the financial statements because they could not be produced during the time of audit.

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

27. 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. For the Councils that managed to have Fixed Asset Registers, the registers were incomplete. This is serious non-compliance of accruals concept of accounting under International Public Sector Accounting Standards (IPSAS) which the Councils adopted

### **Bank Reconciliation Statements**

28. 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.
29. Apart from the observations above, the following were also noted:
- Documents not provided for audit inspection;
  - Payment vouchers without supporting documents;
  - Differences between the underlying records and the financial statements;
  - Failure to provide supporting schedules to the figures in the financial statements;
  - Poor fuel management;
  - Poor stores management;
  - Failure to include some figures in the financial statements; and
  - Unauthorised payments

## **SPECIFIC AUDIT FINDINGS**

### **BALAKA DISTRICT COUNCIL**

30. An audit of Balaka District Council for the year ended 30th June, 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Failure to provide pension scheme for direct employees**

Section 9 (1) of the Pensions Act (2010) obliges all employers to make provision for every person under their employment to be a member of a registered pension fund.

Contrary to this requirement, a review of transactions for Balaka District Council disclosed that the Council's direct staff are not on pension scheme.

**(b) Non remittance of PAYE - K1,711,296**

Taxation Act (14:01) requires that employers must deduct Pay as You Earn (PAYE) from the remuneration paid to employees and remit it to Malawi Revenue Authority within 14 days of the end of the month in which it was deducted.

A review of transactions for the Council revealed that PAYE deductions from payment of salaries amounting to K1,711,296 were not remitted to MRA as required.

**(c) Failure to remit Withholding Tax K2,217,498.39**

Taxation Act (14:01) requires among other things, that withholding tax be deducted at source when effecting payments to suppliers of goods and services who have no proof of a valid Withholding Tax Exemption Certificate and Sections 102(A) and 146 (6) of the same Act require that the amounts of withholding tax deducted should be remitted to the Malawi Revenue Authority within 14 days from the end of the month in which such deduction was made.

A review of payments for the entity revealed that withholding tax totalling K2,217,498.39 was not remitted for deductions made from payments to various suppliers of goods and services as required.

**(d) Failure to account for revenue - K8,926,400**

A review of revenue from ticket sales against revenue recorded in Council records disclosed that revenue amounting to K8,645,200.00 was not recorded in the books of the Council. The review exercise also uncovered that revenue amounting to K122,000.00 from rentals for office building, houses and shops at Phalula and Ulongwe markets was also not accounted for.

**(e) Misallocation of expenditure: K9,033,265.52**

Treasury Instruction 4.14.1 states that specific approval is required before any allocations can be vired or transferred between a programme/item within the same Vote. The section further states that if the Controlling Officer is satisfied that the provision against a programme/item will be inadequate, he may submit an application to the Secretary to the Treasury in writing to vire or transfer funds between a programme/item within the same Vote.

A review of payment vouchers for the entity revealed that expenditure amounting to K9,033,265.52 was misallocated without obtaining prior approval from the Secretary to the Treasury.

**(f) Solar Installation works not fully functional at Dziwe Secondary School – K5,497,395.11**

A visit to Dziwe Secondary School uncovered that solar installation works valued at K5,497,395.11 were not fully operational. The solar installations were done to the administration block and classrooms to ensure that students have reliable electricity for studies. However, it was noted that solar electricity was not working in the classrooms despite the installation being done just in September, 2017. The solar was only functional in the administration office. The contractor who did the installation is Doza Solar Masters.

**BLANTYRE DISTRICT COUNCIL**

31. An audit of Blantyre District Council for the years ended 30th June, 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Bank Reconciliations Not Performed**

Local Authorities Accounting and Financial Management Procedures Manual paragraph 10.1 requires councils to operate bank accounts that shall reconcile the bank balance with the cashbook balance at least once a month. An officer independent of the one responsible for maintaining the cashbooks shall prepare the bank reconciliation statements.

A review of cashbooks, bank statements and other related information noted that the council did not prepare bank reconciliations statements for all its bank accounts during the financial year end 2016-2017. Blantyre District Council had the following bank accounts for which its bank reconciliation statements were not performed during the year under review; FMB AC.No. 0200123018, NBS AC.Nos. 14310738 and 14310808 and National Bank AC.Nos. 469408 and 460052.

**(b) Misallocation Of Expenditures: K2,327,960.00**

Treasury Instruction (2004) No. 4.14.1 states that specific approval is required before any allocations can be vired or transferred between a programme/item within the same Vote. The Section further states that if the Controlling Officer is satisfied that the provision against a programme/item will be inadequate, he may submit an application to the Secretary to the Treasury in writing to vire or transfer funds between a programme/item within the same Vote.

An inspection of payment vouchers for the period July 2016 to June 2017 disclosed that funds amounting to K2,327,960.00 were spent on items which were not related to their intended purposes as approved by Parliament. Therefore, funds were not spent in accordance with the approved budget.

**(c) Payment Vouchers Without Evidence of Authorisation: K9,976,749.60**

Treasury Instructions 5.16.2.1 and 5.16.2.3 require that payment vouchers and supporting documents should be properly authorised by all responsible officers by signing all the payment vouchers and supporting documents in their own handwriting as evidence of being properly authorized and countersigned for payment.

A scrutiny of payment transactions for the period from July,2016 to June,2017 showed that payment vouchers totaling K9,976,749.60 had no signature of authorizing officers.

**(d) Failure To Provide Evidence of Accountability of CDF Materials At Project Sites: K4,351,358.51**

Treasury Instructions 11.7, among other things, requires that receipts and issues of all stores be recorded in the stores ledger for proper accountability.

During audit verification on sampled CDF projects, it was noted that building materials procured in respect of CDF projects were kept by members of Parliaments who were supplying them to the contractors hence the communities were not involved. This made it very difficult for the auditors to properly verify the materials procured at the District Council. For instance the project committee members of Khola ADMARC and Mdeka Primary School said that there were not involved in the procurement process of materials hence they did not maintain the stores ledgers for the materials. Consequently, it was very difficult to ascertain the accountability of materials procured. Details below shows the procurement made.

## **CHIKWAWA DISTRICT COUNCIL**

32. An audit of Chikwawa District Council for the year ended 30th June, 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Market Fee Books Not Returned To Central Treasury:- K1,250,000.00**

Treasury Instruction number 5.6.4 of 2004 states that revenue collectors may collect and account for revenue and other public moneys falling within their control in accordance with instructions issued by the designated Receiver of Revenue.

An inspection of security documents register for the year ended 30th June, 2017 disclosed that the office issued 125 Market fee books to market fee revenue collectors. The market fee books had a total value of K1,250,000.00. As at the date of audit, the books and revenue realized in those books had not been surrendered to the office.

**(b) Payment Vouchers Not Produced For Audit – K8,249,948.20**

Treasury instruction number 5.9 (a) of 2004 states that, every Controlling Officer shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance, Economic Planning and Development, Economic Planning and Development and National Audit office staff.

An inspection of cash books and payment vouchers for the year ended 30th June, 2017 disclosed that payment vouchers amounting to K8,249,948.20 were not made available for inspection by the auditors. Consequently, the propriety of the expenditure could not be established or determined.

**(c) Fuel Purchased Not Accounted For – K31,641,291.14**

Treasury Instructions 11.7.1.2 of 2004 where consumable stores are received in bulk for subsequent issue on small lots, transactions will be entered in a Consumable Stores Ledger.

An inspection of payment vouchers, fuel ledger and motor vehicle logbooks disclosed that purchases of fuel worthy K31,641,291.14 was not recorded in the fuel ledger or motor vehicle logbooks. As a result, it was not possible to ascertain how the fuel was disposed off.

**(d) Payments Without evidence of IPC involvement– K18,226,030.50**

Treasury Instruction number 5.16.2 of 2004 states that every Controlling must ensure that internal control measures and procedures are in place in respect of transactions for payments.



An examination of payment vouchers revealed that the office had payments to different suppliers and contractors amounting to K18,226,030.50 without evidence of IPC involvement..

**(e) Payments Without Evidence of Sourcing At Least Three Quotations- K39,043,438.50**

Public Procurement Act 35 (1) of 2003, states that a procuring entity shall request quotations from at least three bidders.

Contrary to the requirement, an inspection of payment vouchers disclosed that the office had payments amounting to K39,043,438.50 to suppliers with no evidence of sourcing at least three quotations.

**(f) Funds Meant For District Development Fund Used For Constituency Development Projects Without Authority: – K4,701,552.00**

Treasury Instruction (2004) No. 4.14.1 states that specific approval is required before any allocations can be vired or transferred between a programme/item within the same Vote. The section further states that if the Controlling Officer is satisfied that the provision against a programme/item will be inadequate, he may submit an application to the Secretary to the Treasury in writing to vire or transfer funds between a programme/item within the same Vote.

An inspection of payments vouchers and physical verification of projects disclosed that funds intended for District Development projects totaling to K4,701,552.00 were used for Constituency Developments projects and the money had not yet been paid to the DDF Account.

**(g) Payments Made In Full Before Completion Of The Projects:- K2,208,000.00**

Treasury Instruction number 5.19.1 of 2004 states that payment for goods and services received shall be effected upon verification and confirmation that goods were received or that services were rendered. In addition, CDF Guideline No 16(4) requires that final payment on projects should be done after issuance of certificate of completion.

An examination of payment vouchers and labour contracts revealed that the office paid full amounts totaling to K2,208,000.00 to contractors before completion of projects.

**(h) Culverts Rings Materials Purchased For LDF Projects But Not Delivered – K4,370,400.00**

Treasury Instruction number 5.19.1 of 2004 states that payment for goods and services received shall be effected upon verification and confirmation that goods were received or that services were rendered.

An inspection of payment vouchers and physical verification of the projects at Nyambo and Kabwatika roads disclosed that the office made

payments for materials for culverts totaling to K4,370,400.00 but during verification exercise, it was revealed that the materials were not delivered hence poor standard culverts were made due to non-delivery of materials.

**(i) Food and Ration Not Recorded On Stock Sheets - K15,458,861.38**

Treasury Instruction number 5.9 (b) of 2004 states that all transactions shall be recorded in a primary government record or ledger, either within the records held by a ministry with the approval of the secretary to the treasury and summarized in the ledgers held by the Ministry of Finance, Economic Planning and Development, or in a record maintained by the Ministry of Finance, Economic Planning and Development, Economic Planning and Development.

An inspection of payment vouchers and the stock sheets for the year ended 30th June, 2017 disclosed that food and ration amounting to K15,458,861.38 were not recorded on stock sheets.

**(j) Stores Items Paid For But No Evidence of Delivery - K889,750.00**

Treasury Instructions number 5.19.1 states that payment for goods and services received shall be effected upon verification and confirmation that goods were received or that services were rendered.

Contrary to the above instruction, it was noted that the office paid for goods amounting to K889,750.00 for the year ended 30th June, 2017 to suppliers but the goods were not delivered.

**CHIRADZULU DISTRICT COUNCIL**

33. An audit inspection of the financial and other information for Chiradzulu District Council for the year ended June 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Market Fees Not Recorded In The Cash Book: K40,464,972.50**

Local Authorities Finance Management Act Section 17(3) states that, at the end of each month, the director of finance, shall post total invoices and total receipts to the debtors control account supported by a reconciliation schedule of debtors as extracted from the debtors ledger

An inspection of market fees and general receipts revealed that some of the market fees amounting to K40,464,972.50 were not posted into the cash book. With this the financial statements revenue figures could be understated. Below are details of the revenues in question:

**Table 2: Market Fees Not Recorded In The Cash Book**

<u>Date</u>	<u>General Receipts</u>	<u>Amount (K)</u>
01/07/2016	41989-42100	10,646,287.50
29/08/2016	43601-43750	2,253,185.00
12/12/2016	43151-43300	1,696,500.00
16/08/2016	42401-42550	13,969,000.00
08/05/2017	0079001-0079050	11,900,000.00
<b>TOTAL</b>		<b><u>40,464,972.50</u></b>

**(b) Payment Vouchers Without Supporting Document: K7,654,428.85**

Treasury Instruction 5.9(a) states that proper accounting records are maintained to support all financial and related transactions. In addition, that full supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance, Economic Planning and Development and National Audit office staff;

An inspection of payment records disclosed that some payment vouchers amounting to K7,654,428.85 were submitted for audit review without supporting documents. As such the propriety of the expenditure could not be ascertained.

**Table 3: Payment Vouchers Without Supporting Documents**

<u>Sector</u>	<u>Amount (K)</u>
Secretariat	6,466,745.00
District Health Office	1,187,683.85
<b>Total</b>	<b><u>7,654,428.85</u></b>

**(d) Payment Made Without Being Authorized And Countersigned: K22,888,162.35**

Treasury Instructions 5.16.2.1 and 5.16.2.3 require that payment vouchers and supporting documents should be properly authorized by all responsible officers by signing all the payment vouchers and supporting documents in their own handwriting as evidence of being properly authorized and countersigned for payment.

A review of payment vouchers for the period between July, 2016 and June, 2017 revealed that payment vouchers amounting to K22,888,162.35 were not authorized nor countersigned by the responsible officers which is contrary to Treasury Instructions. In the absence of proper authorities on the payment voucher, dubious payments could be made.

**(e) Payments Made For Trainings But No Activity Reports Produced: K16,279,386.30**

Treasury Instruction 2.6.1(h) requires that all expenditures incurred should be with regard to economy, efficiency and effectiveness and the avoidance of waste.

An inspection of payment vouchers disclosed that some payments amounting to K16,279,386.30 were made for training and workshops but had no activity reports as proof that the activities in question indeed took place.

**(f) Failure To Remit Withholding Tax To Malawi Revenue Authority (MRA): K2,514,100.58**

Taxation Act (14:01) requires among other things, that withholding tax be deducted at source when effecting payments to suppliers of goods and services who have no proof of a valid Withholding Tax Exemption Certificate and Sections 102(A) and 146 (6) of the same Act require that the amounts of withholding tax deducted should be remitted to the Malawi Revenue Authority within 14 days from the end of the month in which such deduction was made.

An examination of payment vouchers disclosed that payments amounting to K2,514,100.58 were deducted from suppliers' payments who did not possess withholding tax exemption certificates according to the MRA Act, but there was no evidence to show that the deducted amount was remitted to MRA.

**(g) Failure to Account for Purchased Fuel: K44,121,394.07**

Treasury Instructions 5.9 subsection (a) Maintenance of Accounting Records, requires that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance, Economic Planning and Development and National Audit office staff.

An inspection of payment vouchers disclosed that fuel purchased between July 2016 and June 2017 amounting to K44,121,394.07 for the Headquarters had no records of receipts and usage. As such it was difficult to ascertain how the fuel was accounted for. A summary per sector is as follows:

**Failure to account for purchased fuel**

**Table 4:**

<u>Sector</u>	<u>Amount (K)</u>
Secretariat	19,200,864.64
Local Development Fund	17,575,011.00
District Health Office	7,345,518.43
<b>Total</b>	<b><u>44,121,394.07</u></b>

**(h) Payment Vouchers Not Produced For Audit Inspection: K62,047,599.82**

Treasury Instruction 11.6.1 stipulates that in terms of the Public Audit Act, 2003, the Auditor General and his staff are at all times entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers must give them every facility for inspecting such documents.

Contrary to the requirement, it was noted that some payment vouchers amounting to K62,047,599.82 during 2016/2017 financial year, were not presented for audit inspection. A summary of the payment vouchers is detailed below:

**Table 5: Payment Vouchers not Produced for Audit Inspection**

<u>Sector</u>	<u>Amount (K)</u>
Secretariat	32,218,952.27
Constituency Development Fund (CDF)	23,820,659.74
District Development Fund (DDF)	6,007,987.81
<b>Total</b>	<b>62,047,599.82</b>

**(i) Airtime Purchased But Not Accounted For: K19,300,834.00**

Treasury Instruction 5.9 (b), as read together with Treasury Instruction 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

An inspection of air time ledgers disclosed that the Council purchased airtime valued at K19,300,834.00 of which management failed to furnish accountability records to the audit team. In the absence of such records, it was difficult to ascertain whether the intended beneficiaries received the airtime. Below is a summary per sector:

**Table 6: Airtime Purchased But Not Accounted For**

<u>Sector</u>	<u>Amount (K)</u>
Secretariat	12,218,300.00
District Health Office	7,162,534.00
<b>Total</b>	<b>19,300,834.00</b>

**(j) Failure to Account for Stores Purchased: K29,555,611.66**

Treasury Instruction 11.7.1.5 provides that stores ledger for the purpose of recording the receipts and issues of all stores will be kept for each store. It is, therefore, a requirement that the recipients of the stores items should sign or thumb print for the items to acknowledge receipt.

However, an examination of payment vouchers alongside the stores records disclosed that purchased worth K29,555,611.66 had no record in the stores ledger to ensure accountability. It was therefore, difficult for the audit team to ascertain how the stores items purchased were accounted for. Below is a summary of the payments:

**Table 7: Failure to Account for stores purchase**

<b>Sector</b>	<b>Amount (K)</b>
Constituency Development Fund (stores)	6,389,054.00
Constituency Development Fund (materials)	1,287,700
District Health Office	3,539,871.44
District Education Manager	18,338,986.22
<b>TOTAL</b>	<b>29,555,611.66</b>

**(k) Failure to Complete Constituency Development Fund Project Identification Forms: K46,654,536.84**

Section 5 of the Constituency Development Fund (CDF) guidelines requires that the Member of Parliament (MP) should organize a meeting with chiefs, Councilors and Areal Development Committees within the constituency to identify and prioritise projects that meet the immediate socioeconomic needs of the people in the constituency that can be funded under the CDF including ongoing project.

Section 3 of the CDF states that an application form shall be completed for each preferred project and a relevant appraisal shall be conducted by the Council for each project.

An examination of financial records revealed that projects funds amounting to K46,654,536.84 were paid without completing constituency development fund project identification forms. It was therefore, difficult for the audit team to ascertain the basis of such payments in the absence of the relevant completed forms.

**(l) DDF Projects Undertaken Without Prior Approval of Internal Procurement and Disposal Committee: K21,073,257.35**

Procurement regulations (2004) number 18 requires the Internal Procurement Committees to plan and coordinate all procurements in a procuring entity.

An examination of payment vouchers in respect of District Development Fund disclosed that payments amounting to K21,073,257.35 were not evaluated by the Internal Procurement and Disposal Committee since IPC minutes were not produced for audit review. As such value for money on such procurements could not be achieved.

## **CHIRADZULU DISTRICT HEALTH OFFICE (DHO)**

### **(m) Fuel Issued Out of The Fuel Register But Not Signed For By Recipients: K13,016,009.00**

Treasury Instruction number 5.13 requires that adequate internal controls must exist within each Ministry and Department and that Controlling Officers should ensure that the control objectives are met.

Audit tests on operational effectiveness of the internal controls in relation to fuel management disclosed that fuel worth K13, 016,009.00 issued out of the fuel register between June, 2016 and July, 2017, was not signed for by the recipients in the fuel register.

### **(n) Gas Purchased But Not Accounted For: K2,608,146.21**

Treasury instructions 11.7.1.5 requires that all items purchased should be recorded in a stores ledger before distribution.

An examination of payment vouchers disclosed that gas amounting to K2,608,146.21 was purchased but there was no record on how it was used. Hence, it was difficult for the audit team to establish the accountability of the asset.

## **CHITIPA DISTRICT COUNCIL**

34. An audit inspection of the financial and other information for Chitipa District Council for the year ended June 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as in highlighted the following observations:

### **(a) Payment Vouchers Without Supporting Documents: K16,928,632**

Treasury Instruction (2004) No. 5.15.1 States that controlling officers shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible.

Contrary to the above requirement, payments amounting to K16,928,632.00 processed for payment between November, 2016 and May, 2017 were submitted without relevant supporting documents. In the absence of the documents, it was difficult for the inspecting auditors to ascertain whether the expenditure made was a correct charge to public funds.

### **(b) Payment for Programs Without Activity Reports: K3,218,000.00**

Treasury Instruction 2.6.1(h) requires that all expenditures incurred should be with regard to economy, efficiency and effectiveness and the avoidance of waste.

An inspection of payment vouchers revealed that between December, 2016 and January, 2017 payment amounting to K3,218,000.00 were made for supervision and monitoring. However, these expenditures were not supported by activity reports. As a result, it was difficult to ascertain whether these activities were undertaken by officers involved or not.

**(c) Fuel Not Accounted for: K31,663,456.68**

Treasury Instruction (2004) No. 5.9 (b), as read together with Instruction No. 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

An inspection of payment vouchers revealed that fuel purchased between September, 2016 and April, 2017 amounting to K31,663,456.68 was not properly accounted for since management did not submit records such as registers, logbooks and pump receipts. As a result, the accountability of the fuel could not be ascertained.

**(d) Construction Materials Not Accounted for: K22,822,465.80**

The Constituency Development Fund guidelines (2004) No 15 among other things requires any type of stores to be properly accounted for.

An examination of payment vouchers for purchases of construction materials under CDF revealed that materials valued at K22,822,465.80 had no record to support their receipt and utilization. As a result, it was difficult to ascertain how the materials were accounted for.

**(e) Misallocation of Funds: K3,906,895.88**

Treasury Instruction (2004) No. 4.14.1 states that specific approval is required before any allocations can be vired or transferred between a programme/item within the same Vote. The section further states that if the Controlling Officer is satisfied that the provision against a programme/item will be inadequate, he may submit an application to the Secretary to the Treasury in writing to vire or transfer funds between a programme/item within the same Vote.

An inspection of payment vouchers revealed that between August, 2016 and May 2017, the office misallocated expenditures amounting to K3,906,895.88 without Treasury authority. The funds were spent on items which were not related to their intended purposes as approved by Parliament.

**DEDZA DISTRICT COUNCIL**

35. An audit of Dedza District Council for the year ended 30th June, 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:



**(a) Procurement Without Evidence of IPC Involvement: K92,028,365.64**

Procurement regulations (2004) number 18 requires the Internal Procurement Committees to plan and coordinate all procurements in a procuring entity.

Contrary to the requirement above, an examination of records revealed that goods worth K92,028,365.64 were procured without evidence of the IPC involvement. Details are below:

**Table 8: Procurement Without Evidence of IPC Involvement**

<b>SECTOR</b>	<b>AMOUNT (K)</b>
Secretariat	41,967,331.00
Agriculture	3,188,206.69
DHO	12,500,305.45
DDF	4,272,491.50
LDF	14,621,631.00
Social Cash Transfer	15,478,400.00
<b>TOTAL</b>	<b>92,028,365.64</b>

**(b) Payments Without Evidence of Sourcing At Least Three Quotations : K28,501,016.60**

Section 35(1) of Public Procurement Act (2003) requires that a minimum of three quotations should be sourced whenever a request for quotation method has been used.

However, an examination of financial records revealed that the Council purchased goods and services worth K28,501,016.60 without evidence of soliciting of at least three quotations when procuring goods and services. Details are below:

**Table 9: Payment without Evidence of sourcing Atleast Three Quotations**

<b>SECTOR</b>	<b>AMOUNT (K)</b>
Secretariat	8,898,208.00
DHO	4,124,408.60
Social Cash Transfer	15,478,400.00
<b>TOTAL</b>	<b>28,501,016.60</b>

**(c) Payment Vouchers Without Supporting Documents: K20,998,280.25**

Treasury Instruction (2004) 5.9 states that every Controlling Officer shall ensure that proper accounting records are maintained to support all financial and related transaction and that full supporting documents are retained and filed in such a way that they are easily and readily accessible by the National Audit Office.

Contrary to the above regulation, an examination of records disclosed that payment vouchers totalling K20,998,280.25 were submitted for audit without supporting documents. In the absence of supporting documents, it was difficult for inspecting auditors to establish the validity of the expenditure made. Details are below:

**Table 10: Payment Vouchers Without Supporting Documents**

<u>SECTOR</u>	<u>AMOUNT (K)</u>
Secretariat	7,941,806.00
Agriculture	3,778,000.00
DHO	9,278,474.25
<b>TOTAL</b>	<b><u>20,998,280.25</u></b>

**(d) Fuel Not Recorded In Motor Vehicle Logbooks: K30,374,276.00**

Treasury Instruction 5.13.1 (2004) requires, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently managed

An examination of records revealed that fuel worth K30,374,276.00 which was purchased during the period under review was not recorded in the motor vehicle log books. In the absence of the entry in the logbooks it was difficult to ascertain that the fuel was used for the intended trips. Details are shown below:

**Table 11: Fuel Not Recorded in Motor Vehicle Log Books**

<u>SECTOR</u>	<u>AMOUNT (K)</u>
Secretariat	23,519,654.00
Agriculture	5,118,944.00
DDF	1,735,678.00
<b>TOTAL</b>	<b><u>30,374,276.00</u></b>

**(e) Stores Items Not Recorded In The Stores Ledger: K12,830,512.00**

Treasury Instruction 11.7.1.5 states that a stores ledger for the purpose of recording the receipts and issues of all stores will be kept for each store for proper accountability.

An examination of payment vouchers, delivery notes, invoices disclosed that stores items valued K12,830,512.00 which were purchased from different suppliers has no record in form of a stores ledger. In the absence of the stores ledger it was difficult to ascertain the accountability of the stores items purchased and used.

**(f) Building Materials Purchased But No Evidence of Delivered To Mayani Market Shade: K4,205,534.00**

Treasury Instructions number 5.19.1 states that payment for goods and services received shall be effected upon verification and confirmation that goods were received or that services were rendered.

An examination of payment vouchers revealed that building materials worth K4,205,534.00 which were bought for Mayani Market shade were not delivered on site.

**(g) Failure To Prepare Bank Reconciliation**

Treasury Instructions 5.7.2 (J) of 2004 requires that bank reconciliation statement should be prepared so that errors in the bank statement or cash book are detected in good time for proper action to be taken by Controlling Officers.

However, it was noted that the Council did not prepare bank reconciliation statements for Other Recurrent Transactions and Constituency Development Fund account for the whole period under review.

**(h) Receipted Vouchers Not Produced For Audit: K12,365,862.14**

Treasury Instruction (2004) 11.6.1 stipulates that the Auditor General and his/her staff are at all times entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers are required to give them every facility for inspecting such documents.

Contrary to the requirement above, receipted vouchers amounting to K12,365,862.14 were not produced for audit inspection. Details are shown in the table below:

**Table 12: Receipted Vouchers Not Produced For Audit**

<b>SECTOR</b>	<b>AMOUNT (K)</b>
Secretariat	11,980,862.14
DHO	385,000.00
<b>TOTAL</b>	<b>12,365,862.14</b>

**(i) Funds Not Accounted For By Linly Chamwalira: K3,789,000.00**

An examination of records revealed that funds amounting to K7,189,000.00 were withdrawn on 16th February, 2017, on cheque number 025030, paid to Linly Chamwalira on behalf of other officers for a monitoring activity. Out of the amount withdrawn, only K3,400,000.00 was liquidated, leaving a balance of K3,789,000.00 not accounted for since no documentation was provided to the audit team to ascertain how the balance was utilized.

**(j) Fuel Not Entered In The Fuel Register: K29,242,367.50**

Section 11.7.1.5 of Treasury Instructions (2004) requires that all stores items purchased should be recorded in the fuel register.

However, an examination of payment vouchers and fuel register revealed that fuel worth K29,242,367.50 which was purchased during the period under review was not recorded in the fuel register. This made it difficult for the auditors to ascertain the disposal of the purchased fuel. Below are the details:

**Table 13: Fuel Not Entered In The Fuel Register**

<u>SECTOR</u>	<u>AMOUNT (K)</u>
DHO	28,026,967.50
DDF	<u>1,215,400.00</u>
<b>TOTAL</b>	<b><u>29,242,367.50</u></b>

**(k) Payments Without Corresponding Payment Vouchers: K8,764,233.00**

Section 5.5.2 of Local Council Accounting manual requires preparation of a payment voucher before drawing of a cheque.

However, an examination of records revealed that payments worth K8,764,233.00 were made without preparing a payment voucher. This contravenes the requirement stated in the section stated above. Details are shown below:

**Table 14: Payments Without Corresponding Payment**

<u>SECTOR</u>	<u>AMOUNT (K)</u>
DHO	932,233.00
DDF	<u>7,832,000.00</u>
<b>TOTAL</b>	<b><u>8,764,233.00</u></b>

**(l) Funds Not Accounted For: K779,100.00**

An examination of payment vouchers revealed that funds amounting to K779,100.00 (DDF) which was drawn for awareness activities for local leaders in 5 pilot catchment meetings was not accounted for. This was evidenced by lack of disposal records relating to the funds withdrawn. Details are shown in the Table below:

**Table 15: Funds Not Accounted For**

<u>DATE</u>	<u>CHQ #</u>	<u>PAYEE</u>	<u>DESCRIPTION</u>	<u>DONOR</u>	<u>AMOUNT (MK)</u>	<u>DETAILS OF AUDIT FINDING</u>
12/01/17	7332	NW Tepeka f/s	Funds for awareness- raising activities for local leaders in 5 pilot catchment meetings	GIZ	779,100.00	Disposal records not attached (receipted vouchers, fuel receipts)
<b>TOTAL</b>					<u><b>779,100.00</b></u>	

**(m) Funds Borrowed From DDF Account Not Refunded: K3,955,213.66**

Treasury Instruction (2004) No. 4.14.1 states that specific approval is required before any allocations can be vired or transferred between a programme/item within the same Vote.

An examination of records revealed that funds amounting to K3,955,213.66 were used on other activities (borrowed) by the Secretariat from DDF account were not paid back. Therefore, activities which should have been implemented using the misapplied funds were affected.

**(n) ADC/VDC Not Involved In Identifying Key Projects: K8,393,422.63**

Under Constituency Development Fund guideline number 5, Project Identification, the Member of Parliament should at least once a year organize a meeting with Chiefs, Councillors, and Area Development Committees/Urban Development Committees within the Constituency to identify and prioritise projects that meet the immediate socioeconomic needs of the people in the Constituency that can be funded under the CDF.

A visit to the project sites and through interviews with the Chiefs, Councillors, and ADC members revealed that projects worth K8,393,422.63 were identified by the Members of parliament themselves without the involvement of stakeholders mentioned in the CDF guide line number 5 stated above.

**(o) Failure To Evaluate And Monitor Projects Despite Withdrawing Resources From The Fund: K2,106,500.00**

Under Constituency Fund Guideline number 9, the District Commissioner and the Members of Parliament shall collaboratively draw up a projects monitoring programme which shall ensure that each project is visited at least twice during its implementation period.

An examination of records and a visit to the project sites and through interviews with the Chiefs, Councillors, and ADC members revealed that the DC was not monitoring CDF projects implementation as required by the guideline number 9 despite withdrawing funds amounting to K2,106,500.00.

**(p) Awarding Of Contracts By Members Of Parliament Without The Involvement Of IPC: K5,166,779.91**

CDF guideline number 14 states that procurement shall be done through an Internal Procurement Committee of the Council.

Contrary to the above requirement, it was observed that contracts for CDF projects worth K5,166,500.00 were awarded by Members of Parliament without the involvement of IPC.

**(q) Projects Without Evidence of Existence: K4,767,454.94**

Treasury Instruction number 5.16.2 of 2004 states that every Controlling must ensure that internal control measures and procedures are in place in respect of transactions for payments. In addition, CDF Guideline No 16(4 and 4) requires that payments on projects should be done after issuance of certificate of completion.

An examination of records and a visit to the constituents revealed that payments worth K4,767,454.94 were made to projects which were not only incomplete but not in existence as detailed in the Table below:

**Table 16: Projects Without Evidence of Existence**

<u>DATE</u>	<u>CHQ #</u>	<u>PAYEE</u>	<u>AMOUNT</u>	<u>PROJECT</u>	<u>CONSTITUENCY</u>
20/06/17	27364	Tilimbenazo	2,096,016.74	Construction of Kapalamula School Block	Dedza South
19/12/16	24201	M Francis	2,671,438.20	Construction of Kapili School Block	Dedza East
<b>TOTAL</b>			<b><u>4,767,454.94</u></b>		

**(r) Log Sheet Not Signed By Beneficiaries: K265,497,600.00**

Treasury Instructions No 5.26.6 stipulates that the person making the payment shall file properly all paid documents duly stamped 'PAID' together with an acknowledgement of receipt from the beneficiary.

An examination of records revealed that beneficiaries on log sheets for LDF worth K265,497,600.00 did not sign off against their names.

## **DOWA DISTRICT COUNCIL**

36. An audit inspection of the financial and other information for Dowa District Council for the year ended 30th June, 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Expenditure Made Against No Budget: K33,518,998.80**

Treasury instruction 5.18 states that adequate internal controls shall exist within each MDA which shall include resources are employed and managed in an effective, economic and efficient manner and that expenditure is only incurred if appropriation exists, and is always validly and correctly authorized and that relevant Government policies and legislation are complied with.

A review of the Councils Trial Balance showed that the Council spent K33,518,998.80 without any existence of a budget.

**(b) Irregular Modification of A Contract: K18,150,346.50**

Procurement regulation number 155 states that an increase in quantities which exceeds maximum variations allowed in the procurement contract require a formal modification of the contract and that Contract modifications shall not result in an alteration of the basic nature or scope of the contract and an increase in quantities which exceeds fifteen (15) per cent of the contract sum either a new procurement proceeding or a justification if appropriate, as a procurement in accordance with section 36 of the Act.

A review of procurement documents for Dowa Boma Rest House revealed that in May 2016, Nkhalamu Building Contractors were given a contract to renovate the rest house at a contract sum of K25,751,222.46. In this contract there was no variation clause but on 25th July 2016, which was a month from a contract award date, the contract was amended to K43,901,568.00, resulting in an upward variation of K18,150,346.50 which is 70% of the original contract amount without justification. Additionally, the scope of work was altered which is against the above regulation. This modification made the total contract sum to increase significantly. In the IPC minutes dated 22nd July 2016, there is an indication that the additional works were requested by the contractor not the client.

**(c) Stale Cement For DAHSP In Stores: K1,326,000**

Treasury Instruction 2.6.1(i) states that it is the responsibilities of Controlling Officers to ensure that all necessary precautions are taken to safeguard public resources.

A physical count of Decent and Affordable Housing Subsidy Programme (DAHSP) items still in stock at the Council showed that there are 221

bags of stale cement with an estimated value of K1,326,000.00 which cannot be distributed to beneficiaries.

**(d) Payments On Bank Statement But Not In Cashbook And Without Payment Vouchers: K1,028,340.00**

Paragraph 5.5.2 of Local Authority Finance and Accounting Manual states that all payments must be by cheque except for petty cash payments. Payments for goods and services shall be made on a prescribed General Payment Vouchers (GPV).

A bank reconciliation of the DAHSP account showed that some payments were done without raising a payment voucher and they were not shown in the cashbook. In the absence of a payment voucher dubious and unauthorized payments could be made since a payment voucher is one of the control documents on which expenditure is authorised and approved to show authenticity.

**(e) CDF Materials Purchased But No Evidence of Delivery To The Project Sites: K22,541,020.87**

The guidelines for constituency development fund requires that the Council should prepare a cheque to a supplier of CDF materials which should be signed by the ADC who are mandated to take the goods from the supplier together with a cash sale and delivery note.

A review of CDF documents indicated that cheques amounting to K22,541,020.87 were taken directly by the supplier who dealt directly with the Members of Parliament. The Area Development Committee (ADC) just received the items without delivery notes. This situation had created a problem because it was difficult to reconcile what was paid against what was delivered. Council

**(f) Failure to liquidate CDF Funds (Chimbuzi Chitenga Road): K1,344,000.00**

Treasury Instruction (2004) No. 5.15.1 States that controlling officers shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible. In addition, Treasury Instructions (2004) Section 5.26 stipulates that all payments made should be signed by beneficiaries and all signed vouchers should be returned to cash office for receipt.

An examination of payment vouchers revealed that expenditures on CDF amounting to K1,344,000.00 were paid to Lawrence Manong'a of Dowa North Constituency but the payment vouchers were not supported by receipted vouchers. The accountability of the expenditure could not be ascertained in the absence of the receipted vouchers. .



**(g) Stores Not Accounted For: K24, 923,247.55**

Treasury Instruction 11.7.1.5 provides that stores ledger for the purpose of recording the receipts and issues of all stores will be kept for each store. It is, therefore, a requirement that the recipients of the stores items should sign or thumb print for the items to acknowledge receipt.

Contrary to the above requirement, management of the Council failed to produce accountability records for the purchased stores items worth K24,923,247.55. Consequently, it was difficult for the audit team to ascertain how the purchased stores were accounted for.

**(h) Fuel Not Accounted For: K28,513,025.50**

Section 11.7.1.5 of Treasury Instructions (2004) requires that all stores items purchased should be recorded in the register.

An examination of the fuel records revealed that fuel amounting to K28,513,025.50 purchased by the Council had no receipt and disposal records during the year under review. As such it was difficult to ascertain how the fuel was utilized.

**(i) Expenditures On Bank Statement Not In The Cash Book: K1,576,239.00**

Treasury Instruction( Finance) 2013 section 5.16 stipulates that all payment ,receipts and other accounting transactions shall be entered and processed into the integrated financial information system approved by the secretary to the treasury.

A bank reconciliation revealed that payments amounting to K1,576,239.00 that were made during the year were only reflected on the Council's bank statement but did not have a corresponding entry in the system cashbook. As such it was difficult to ascertain the propriety of the expenditure.

**(j) Payment Vouchers Without Supporting Documents: K21,680,904.40**

Treasury Instructions No. 5.15.1 states that controlling officers shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible.

Contrary to the above requirement, payment vouchers amounting to K21,680,904.40 had no supporting documents as at the time of audit. In the absence of such documents, it was difficult for the inspecting auditors to ascertain whether the expenditure made was a correct charge to public funds.

**(k) Receipted Vouchers Not Produced For Audit: K19,290,343.00**

The Public Audit Act Section 7 (1) (a) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access to all documents and books of accounts, among other things, that are subject to audit for his examination.

An examination of expenditure records disclosed that receipted vouchers amounting to K19,290,343.00 were not produced for audit review. The accountability of the cash drawn could, therefore, not be established by the audit team.

**KARONGA DISTRICT COUNCIL**

37. An audit inspection of the financial and other information for Karonga District Council for the year ended 30th June, 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Payments "For Staff" Instead of Officers' Bank Accounts: K71,488,937.33**

Circular No. T7634, dated 7th February 2011 from the Accountant General, paragraph 1.2.1.1 directs that allowances, advances, leave grants and other payments will be paid to Government employees through bank accounts.

An inspection of payment vouchers processed between July 2016 and June 2017 revealed that funds amounting to K71,488,937.33 for allowances and other payments were paid to individuals "for staff" instead of depositing the money into beneficiaries' bank accounts.

**(b) Fuel Not Accounted For: K22,786,475.58**

Treasury Instruction (2004) No. 5.9 (b), as read together with Instruction No. 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

An inspection of payment vouchers and fuel registers revealed that fuel worth K22,786,475.58 bought between December 2016 and June 2017 was not accounted for. The Audit team requested for fuel registers, Malswitch receipts and logbooks to ascertain the receipts and disposal of fuel but they were not provided, making it difficult to ascertain its accountability.

**(c) Misallocation of Expenditure: K10,901,729.67**

Treasury Instruction (2004) No. 4.14.1 states that specific approval is required before any allocations can be vired or transferred between a

programme/item within the same Vote. The Section further states that if the Controlling Officer is satisfied that the provision against a programme/item will be inadequate, he may submit an application to the Secretary to the Treasury in writing to vire or transfer funds between a programme/item within the same Vote.

An inspection of payment vouchers for the period from July 2016 to June 2017 disclosed that funds amounting to K10,901,729.67 were spent on items which were not related to their intended purposes as approved by the National Assembly. Therefore, funds were not spent in accordance with the approved budget.

**(d) Payment Vouchers not Procuded for Audit: K51,003,840.26**

The Public Audit Act Section 7 (I) (a) requires that the Auditor General and any officer assigned by him should be given sight and access to the information he deems fit for the discharge of his oversight duties.

A review of payment vouchers alongside the Expenditure Statement by Cost Centre showed that management failed to submit payment vouchers amounting to K51,003,840.26 for audit inspection. In the absence of the payment vouchers, the inspecting auditors could not ascertain the propriety of the expenditure incurred. Below is a summary of the payment vouchers:

**Table 17: Payment Vouchers not produced for Audit**

<u>Sector</u>	<u>Amount (K)</u>
ORT	18,258,971.00
DDF	32,744,869.26
<b>Total</b>	<b>51,003,840.26</b>

**(e) Procurement Without Evidence of IPC Approval: K37,608,584.59**

Section 8 of the Public Procurement Act 2003 among other things requires all procuring entities to procure goods and services through the scrutiny and approval of the internal Procurement Committee (IPC).

An inspection of payment vouchers and procurement records for the year ended 30th June 2017 revealed that the office procured items amounting to K37,608,584.59 and the audit team did not see evidence of IPC approval. It was therefore, difficult to ascertain whether the procurements were a valid expenditure on public funds.

**(f) Payments for Goods and Services Without evidence of Sourcing at Least Three Quotations: K6,130,134.00**

Section 35 (1) of the Public Procurement Act states that a procuring entity shall request quotations from at least three quotation (bidders) when using the request for quotation (RFQ) method. The Public

Procurement Regulations stipulate, among other things, that where an entity has adopted a method of procurement of sourcing at least three quotations, the entity should source such quotations before procurement of goods and services is done.

An inspection of payment vouchers revealed that between August 2016 and May 2017 the Health Sector procured goods and services amounting to K6,130,134.00 but the Council did not provide evidence to support that least three quotations were sourced.

**(g) Payment Vouchers Without Supporting Documents: K27,694,778.13**

Treasury Instruction (2004) No. 0608 (1) stipulate that where applicable, a voucher must be fully supported by an original invoice. Supporting documents must be firmly attached to the voucher.

An inspection of payment vouchers processed between July 2016 and July 2017 disclosed that payment vouchers amounting to K27,694,778.13 were submitted for audit review without supporting documents. It was, therefore, difficult to ascertain the funds were a proper charge to public funds.

**(h) Project Materials Not Accounted For: K72,345,411.50**

Treasury Instruction (2004) No. 11.7, among other things, states that a stores ledger for the purpose of recording receipts and issues of all stores will be kept for each store.

An inspection of payment vouchers and the stores ledgers revealed that project materials purchased for the period under review worth K72,345,411.50 had no accountability records such as stores ledger. In the absence of accountability records, it was difficult to ascertain whether the procured items were received and properly utilized by the Council. Below is a summary of the expenditures:

**Table 18: Project Materials Not Accounted For**

<u>Project</u>	<u>Amount (K)</u>
LDF	24,502,900.00
CDF	47,842,511.50
<b>Total</b>	<b><u>72,345,411.50</u></b>

**(i) LDF Payments to Projects With No Evidence of Existence or Completion: K11,404,800.00**

The Local Authority Accounting and Financial Management Manual No.1.3.4; Roles of the District commissioner, role (h) states that the District commissioner shall ensure that all expenditure is incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste.

In addition, the Public Works sub project implementation guidelines No. 7.3 states that all expenditures incurred must be in line with activities and as per agreed work plan, all expenditure incurred for activities that are not project related shall be deemed ineligible and the Council shall refund to LDF-TST.

An inspection of payment vouchers and visits to project sites revealed that K11,404,800.00 was made as full payments on projects which were either fictitious or incomplete.

### **KASUNGU DISTRICT COUNCIL**

38. An audit inspection of the financial and other information for Kasungu District Council for the year ended 30th June 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted the following observations:

**(a) Failure to collect rental fees: K1,183,000**

The Council owns premises from which it is supposed to collect monthly rental fees from the tenants occupying the premises. The fees are an important revenue source for the day to day running of the Council.

However, it was discovered that the Council failed to collect rentals to a total of K1,183,000.00 from a number of tenants occupying some of the premises.

**(b) Activity Reports Not Produced For Audit: K12,978,166**

Treasury Instruction 2.6.1(h) requires that all expenditures incurred should be with regard to economy, efficiency and effectiveness and the avoidance of waste.

The Council conducted various activities during the year under review. These included supervisory activities, meetings, monitoring and evaluation activities of which reports for each and every activity were supposed to be prepared. It was noted, however, that funds amounting to K12,978,166 were paid to the participants as allowances but reports for the activities were not produced. Details are provided below:

**Table 19: Activity Reports Not Produced For Audit**

<b>Sector</b>	<b>Amount K</b>
Council headquarters	1,036,000.00
Local Development Fund	4,414,500.00
District Education Manager	2,655,266.00
District Agriculture Development Office	4,872,400.00
<b>Total</b>	<b>12,978,166.00</b>

**(c) Fuel not accounted for: K55,363,713.50**

Treasury Instruction (2004) No. 5.9 (b), as read together with Instruction No. 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

Examination of payment vouchers in respect of fuel disclosed that fuel amounting to K55,363,713.50 was not recorded in fuel registers and motor vehicle logbooks to ensure the accountability of fuel. In the absence of these records it difficult for the audit team to ascertain the accountability of the fuel purchased. Below is a summary of the fuel in question:

**Table 20: Fuel Not Accounted For**

<u>Sector</u>	<u>Amount K</u>
Other Recurrent Transactions	3,093,354.00
Local Development Fund	1,673,270.50
District Health Office	48,800,000.00
District Education Manager	1,797,089.00
<b>Total</b>	<b><u>55,363,713.50</u></b>

**(d) Poor workmanship - Mtunthama Health Centre**

It is expected that whenever the LDF is constructing structures they should be of a required standard to fit the billing. The Local Development Fund is constructing a maternity wing at Mtunthama Health Centre.

A visit to the site revealed that construction works were still in progress. However, we noted poor workmanship which was especially evident by numerous cracks that had already developed on the floor just four (4) months from the start of the construction works.

**(e) Abandoned Construction Works - Chimbowe CDSS**

Treasury Instruction 2.6.1(h) requires that all expenditures incurred should be with regard to economy, efficiency and effectiveness and the avoidance of waste.

Local Development Fund is constructing a hostel at Chimbowe CDSS. It was expected that construction projects should meet the dateline for completion and then serve the beneficiaries.

A visit to the site revealed that the construction had stopped and this was evident by an abandoned structure. Further inquiry revealed that the contractor left the site in November 2016 because of non-payment of contract fees.

**(f) Failure to Complete Construction Works - Wimbe Pit Latrines**

Treasury Instruction 2.6.1(h) requires that all expenditures incurred should be with regard to economy, efficiency and effectiveness and the avoidance of waste.

The Local Development Fund is constructing also constructing two (2) pit latrines at Wimbe Health Centre.

A visit to the site revealed that construction of the two (2) pit latrines under Local Development Fund had not been completed yet the latrines were under use. The contractor left the site before roofing and plastering the latrines because of non-payment of contract fees.

**(g) Stores items not accounted for: K44, 045,815.34**

Treasury Instruction 11.7.1.5 provides that stores ledger for the purpose of recording the receipts and issues of all stores will be kept for each store. It is, therefore, a requirement that the recipients of the stores items should sign or thumb print for the items to acknowledge receipt.

However, an examination of payment vouchers alongside the stores records disclosed that stores items worth K44,045,815.34 had no record such the stores ledger to ensure accountability. Below is a summary of the payments:

**Table 21: Stores Items Not Accounted For**

<u>Sector</u>	<u>Amount K</u>
Constituency Development Fund	31,361,037.23
District Health Office	6,126,739.61
District Education Manager	6,558,038.50
<b>Total</b>	<b><u>44,045,815.34</u></b>

**(h) Payment vouchers without supporting documentation: K46,461,639.22**

Treasury Instructions No.5.15.1 states that controlling officers shall ensure proper accounting records are maintained to support all financial and related transactions and further that all supporting documents are retained and filed in such a way that they are easily and readily accessible.

Contrary to the above requirements, payment vouchers amounting to K46,461,639.22 were presented for audit by the District Health Office without attaching relevant supporting documents. Consequently, the propriety of the payments could not be ascertained.

## **KASUNGU MUNICIPAL COUNCIL**

39. An audit inspection of the financial and other information for Kasungu Municipal Council for the year ended 30th June, 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Long Outstanding Sundry Receivables: K3,633,759.34**

Local Authority (LA) Accounting and Financial Management Procedures Manual 2.1.5 (Debtors) provides that all such debts shall be timely collected by the Council in accordance with the terms and conditions of the service rendered. If a rate payer fails to pay his or her rate charge within the due date; the Council shall surcharge according to the Local Government Act 1998. Debts proven to be un-collectible for various reasons should be recommended to the Finance Committee for write off as bad debts.

An examination of debtors/receivables revealed that sundry receivables amounting to K3,633,759.34 had been outstanding for so long. They were aged way before 2013. Efforts by the Council to have them collected or cleared could not be verified by the audit team.

**(b) Failure to Pay Long Overdue Debts: K5,614,907.62**

Local Authority (LA) Accounting and Financial Management Procedures Manual 2.1.7 (Creditors). Local Authorities may accrue creditors only to the level of the provision in the annual or supplementary estimates of the Local Authority. Therefore, creditors will be recognized in the books of accounts as soon as goods have been received and services provided. The LAs shall ensure that creditors are paid within the agreed period of the service acquired.

An examination of creditors records revealed that the Council failed to pay back creditors amounting to K5,614,907.62 which were in contrast to the provision. Further examination disclosed that MTL threatened to file legal action against the Council for failing to pay its debts amounting to K1,439,880.77.

**(c) Substandard Construction Works Not Worth Contract Amount: K2,164,871.24**

Treasury Instruction 2.6.1(h) requires that all expenditures incurred should be with regard to economy, efficiency and effectiveness and the avoidance of waste.

An examination of payment vouchers for LDF projects revealed that K2,164,871.24 was spent on construction of Culverts. Audit verification of these projects revealed that the culverts looked dilapidated with signs of little application of cement which makes it likely to collapse with persistent rainfall. The work was very substandard to warrant that cost. Details on the amount spent are shown below:



**Table 22: Substandard Construction Works Not Worth Contract Amount**

<u>Date</u>	<u>Payee</u>	<u>Details</u>	<u>Vr No</u>	<u>Chq No.</u>	<u>Amount (K)</u>
09/30/16	Rokat Construction Company	Bridge renovation charges	9/26/2016	893	480,000.00
09/30/16	Kuwonga Civil Engineering	Bridge culvert installation	9/30/2016	894	480,000.00
10/31/16	Kuwonga Civil Engineering	Culvert installation at kasalika	10/5/2016	910	680,946.24
10/31/16	Rokat Construction Company	Culvert installation at gundani	10/4/2016	910	523,925.00
<b>TOTAL</b>					<b><u>2,164,871.24</u></b>

**(d) Lack of Information Technology (IT) Committee to Support the System**

COBIT PO4.3 on the establishment of an IT Committee stipulates that an IT steering committee (or equivalent) composed of executive, business and IT management should be established to:

- Determine prioritization of IT enabled investment programs in line with the enterprise's business strategy and priorities.
- Track status of IT projects and resolve resource conflict.
- Monitor service levels and service improvements.

During the time of audit, the auditors discovered that Kasungu Municipal Council was implementing Selenic Navigator system, without constituting an IT steering committee.

**(e) Lack of Business Continuity Plan (BCP) and Disaster Recovery Site (DRS)**

COBIT DS4.2 on Business Continuity Plans (BCP) stipulates that the business continuity plans should be developed based on the framework and designed to reduce the impact of a major disruption on key business functions and processes. The plans should be based on risk understanding of potential business impacts and address requirements for resilience, alternative processing and recovery capability of all critical IT services. They should also cover usage guidelines, roles and responsibilities, procedures, communication processes, and the testing

approach.

Contrary to the above, the Assembly did not have a Business Continuity Plan and a Disaster Recovery Site for Selenic Navigator during the period under review.

**(f) Lack of Designated Server Room at Kasungu Municipal Council.**

According to CoBIT DS12.2 physical security measures should be implemented in line with business requirements to secure the location and the physical assets. These security measures should be able to mitigate risks relating to theft, temperature, fire, smoke, water, vibration, terror and vandalism.

However, an examination at the Kasungu Municipal disclosed that there is no dedicated server room. Rather the server was housed in a room that served as an office for Management Information Security Officer (MISO). Additionally, the room is dusty and without good curtains; the environment which is not conducive to host a server.

**(g) Poor Physical Security in Server Room**

COBIT DS12 Manage the physical environment stipulates that protection for computer equipment and personnel requires well-designed and well-managed physical facilities. The process of managing the physical environment includes defining the physical site requirements, selecting appropriate facilities, and designing effective processes for monitoring environmental factors and managing physical access. Effective management of the physical environment reduces business interruptions from damage to computer equipment and personnel.

In view of this, the audit team noticed that at Kasungu Municipal Council which hosts the server is not well physically secured as it was possible for anyone to access the room.

**LIKOMA DISTRICT COUNCIL**

40. An audit inspection of the financial and other information for Likoma District Council for the year ended June 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Project Materials Without Record of Accountability: K2,265,200.00**

Treasury Instruction (2004) No. 5.9 (b), as read together with Instruction No. 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

An inspection of payment vouchers disclosed that Likoma District

Council purchased building materials worth K2,265,200.00 for LDF and MASAF 4 Projects which the officers responsible failed to account for since there was no record for the purchased materials.

**(b) Non-Maintenance of Fuel Ledgers: K11,088,149.92**

Treasury Instruction (2004) No. 5.9 (b) states that all transactions shall be recorded in a primary Government record or ledger, either within the records held by a Ministry with the approval of the Secretary to the Treasury and summarised in the ledgers held by the Ministry of Finance, or in a record maintained by the Ministry of Finance, Economic Planning and Development.

An inspection of payment vouchers and fuel registers revealed that from August 2016 to March 2017, the Council did not maintain a fuel register for the purpose of recording fuel purchases, resulting in the failure by management to account fuel worth K11,088,149.92.

**(c) Payment Vouchers Without Supporting Documents: K14,290,475.60**

Treasury Instruction (2004) No. 5.9 states that every Controlling Officer shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of the Ministry of Finance, Economic Planning and Development, Economic Planning and Development and National Audit office.

An inspection of financial records for the period between August 2016 and May 2017 disclosed that payment vouchers amounting to K14,290,475.60 did not have supporting documents. In the absence of supporting documents, the audit team could not ascertain the validity of the payments

**(d) Payment Vouchers Not Produced For Audit Inspection: K1,804,640.00**

Section 7(1) (a) Public Audit Act (2003), the Auditor General and his staff are at all times entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers must give them every facility for inspecting such documents.

A review of payment vouchers alongside the Expenditure Statement by Cost Centre showed that the management did not submit payment vouchers amounting to K1,804,640.00 for inspection. In the absence of payment vouchers the inspecting auditors could not ascertain the propriety of the expenditure incurred.

**(e) Expenditures Without Evidence of Associated Payment Vouchers: K43,074,048.52**

Treasury Instructions Finance number 5.16.1 of 2004 states that every

Controlling officer must ensure that internal control measures and procedures are put in place in respect of the processing of transactions for payment.

An inspection of payments processed between September 2016 and June 2017 revealed that payments amounting to K43,074,048.52 were made only through cheques without raising payment vouchers.

**(f) Cash Drawn Not Liquidated: K1,602,800.00**

Treasury Instruction (2004) No. 5.15.1 States that controlling officers shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible.

An inspection of payment vouchers processed between September 2016 and March 2017 revealed that Likoma District Council paid allowances for staff amounting to K1,602,800.00 which were not liquidated through signatures of beneficiaries as evidence of receipt. As such it was difficult to ascertain whether the funds were indeed paid to the intended beneficiaries.

**(g) Payments To Individual Officers On Behalf Of Service Provider**

Treasury Circular Ref. No. ST /87 dated 10 December 2010 titled 'Payment Through Bank Accounts: Mandatory Requirement for all Government Employees' states that all payments to suppliers of goods and services, be it salaries, all types of allowances, wages, refunds, leave grants etc must be made through cheques.

An examination of payment vouchers disclosed that payments for various goods and services amounting to K4,390,000.00 were made to staff instead of service providers. The cheques were issued in the names of staff instead of suppliers. There was no proper explanation warranting such type of transactions.

## **LUCHENZA MUNICIPAL COUNCIL**

41. An audit inspection of the financial and other information for Luchenza Municipal Council for the year ended 30th June 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Nugatory Expenditure: K1,931,330.00**

Annual budget and annual work plans are prepared to guide the entity to finance and achieve its strategic plan. During the 2016/17 financial year, Luchenza Municipal Council was implementing a street lights project where it planted 40 street lights along the Blantyre-Mulanje road.

However, an examination of payment vouchers for the year ended June 2017, revealed that the Council wrongly procured a 300 meters (25mm) overhead aluminum bare wire at the cost of K1,931,330.00 instead of 300 meters (20mm). The Council instead of exchanging the wires at the shop, management decided to make a fresh payment to buy the correct wire. This wrongly procured wire (300 meters 25mm) was still lying at the Council's premises as at the time of audit.

**(b) Payments Not Captured In The Integrated Financial Management Information System (IFMIS):- K9,493,099.00**

Treasury Instruction 2004 section 5.9 (b) stipulates that all payments, receipts and other accounting transactions shall be entered and processed into the Integrated Financial Information System approved by the Secretary to the Treasury.

A review of Other Recurrent Transaction (ORT) ledger showed that the IFMIS carried forward figure was given as K9,946,249.31, made up of GRF; K1,952,208.44, Environment; K182,936.63 and infrastructure development of K8,176,977.50. However, an examination of the payment vouchers for the similar period disclosed that payments totaling K9,493,098.77 were not captured in the Integrated Financial Management Information System (IFMIS).

**(c) Payment Vouchers Not Counter Signed By The Chief Executive:- K3,517,261.00**

Treasury Instructions Finance number 5.16.1 of 2004 states that every Controlling officer must ensure that internal control measures and procedures are put in place in respect of the processing of transactions for payment.

An examination of payment vouchers for the period between August, 2016 and March, 2017 disclosed that payments amounting to K3,517,261.00 were processed and passed for payment without being counter signed by the Chief Executive Officer.

**(d) Expenditure Requisitions Not Approved:- K39,860,855.00**

Chapter 5.5.2 of the Local Councils Accounting and Financial Management Procedures Manual stipulates that before undertaking any activity an expenditure requisition should be raised which shall be approved by the Chief Executive Officer and the Director of Finance (Chief Accountant) who shall certify on it the availability of funds and cash balance for the expenditure.

An examination of the Local Development Fund (LDF) expenditure records revealed that payments amounting to K39,860,855 which were made during the year under review, had no authority or approval of the Chief Executive Officer or the Chief Accountant. In the absence of such authorities, dubious payments could be passes.

## **MACHINGA DISTRICT COUNCIL**

42. An audit of Machinga District Council for the year ended 30th June, 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Failure to maintain fixed (Non-current) assets register**

Section 16.7 of the Local Authorities Accounting and Financial Management Procedures Manual requires the Council to maintain a Fixed Asset Register to record details of all non-current assets owned by the Council. This is a monitoring tool which management uses to physically verify existence, location and usage of individual asset item. A fixed asset register can also be used to perform annual reviews of fixed asset in terms of revaluation and impairment.

It was observed that for the period under review, the Council did not maintain a fixed asset register as required by the accounting procedures. The fixed (Non-current) assets for the Council (including those of devolved sectors) were not recorded.

**(b) Failure to adhere to IT internal control environment requirements**

It is a standard operating procedure that an IT system should be protected from viruses and physical access to computer room should also be restricted by ensuring that the computer room has strong and lockable doors. It is also a good practice to have IT policy in place to govern the operations of the system including disaster recovery procedures.

Contrary to this, the audit has found that the Council does not have an IT policy, its computers are not protected with antivirus and the door into the server room is broken. It was also noted that the Council does not have clearly defined disaster recovery procedures.

**(c) Misallocations of expenditure to other budget lines; K20,109,190.60**

Public Finance Management Act, 2003 section 25 requires that specific approval is required before any allocations can be vired or transferred between outputs. The PFM Act authorizes the Secretary to Treasury, with the approval of the Minister at the request of a Controlling Officer, to direct the virement or transfer of funds between the provisions assigned to programmes/ item under a Head/Vote of expenditure, or to create a new programme/item if the amount appropriated under the Head/Vote is not exceeded. If the Controlling Officer is satisfied that the provision against a Programme/item will be inadequate, he may submit an application to the Secretary to the Treasury for virement or transfer funds between a programme/item within the same Vote. The application should be in writing and should be signed personally by the Controlling Officer.

In addition, Treasury Instruction (2004) section 4.14.1 states that specific approval is required before any allocations can be vired or transferred between a programme/item within the same Vote. The section further states that if the Controlling Officer is satisfied that the provision against a programme/item will be inadequate, he may submit an application to the Secretary to the Treasury in writing to vire or transfer funds between a programme/item within the same Vote.

A review of payment vouchers for Machinga District Council revealed that management of the secretariat and other devolved sectors misallocated funds amounting to K20,109,190.60 without obtaining prior approval from the Secretary to the Treasury as summarized below.

**Table 23: Misallocations of expenditure to other budget lines**

<u>SECTOR</u>	<u>AMOUNT(K)</u>
Headquarters	3,379,522.98
DHO	7,454,521.95
DEM	7,354,425.00
DADO	1,920,720.67
<b>TOTAL</b>	<b><u>20,109,190.60</u></b>

**(d) Stores not accounted for in the stores ledger; K32,999,572.31**

Treasury Instructions (2004) section 11.7.1.5 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 the requirement, an examination of payment vouchers, invoices and stores ledgers disclosed that items worth K32,999,572.31 which were purchased from different suppliers during the year under review, were not accounted for in the stores ledger. The details are as summarized below.

**Table 24: Stores not accounted for in the stores ledger**

<u>SECTOR</u>	<u>AMOUNT (K)</u>
Headquarters	1,652,063.38
DHO	27,048,598.77
DEM	3,205,801.66
DADO	1,093,108.50
<b>TOTAL</b>	<b><u>32,999,572.31</u></b>

**(e) Fuel not accounted for in the register; K81,346,401.03**

Treasury Instructions (2004) Section 11.7.1.5 states that a stores ledger for the purpose of recording the receipts and issues of all stores will be kept for each store and section 20.2 of the Local Authorities Accounting

and Financial Management and Procedures Manual, require all fuel purchased to be recorded in the fuel registers, and issues signed for by the recipients. Fuel drawn into vehicles should be recorded in the respective motor vehicles log books.

Contrary to the requirement, an examination of payment vouchers and cash book report for the period under audit review, revealed that fuel purchases worth K81,346,401.03 were not accounted for in the fuel register and motor vehicle log books. It was therefore, difficult for the audit team to ascertain accountability of the fuel purchases since fuel registers were not presented for audit as summarized below.

**Table 25: Fuel not accounted for in the register**

<u>SECTOR</u>	<u>AMOUNT (K)</u>
Headquarters	30,520,202.04
DHO	34,193,821.00
DEM	14,946,128.99
LDF	1,686,249.00
<b>TOTAL</b>	<b>81,346,401.03</b>

**(f) Payment vouchers without supporting documents: K4,192,066.36**

Treasury Instruction (2004) section 5.9 states that controlling officers shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible. In addition, Section 5.5.2 of the Local Authorities Accounting and Financial Management Procedures Manual stipulates that payment vouchers must be fully supported by relevant documents such as invoices, memos, and loose minutes among others.

Contrary to the above requirement, payment vouchers with an amount of K4,192,066.36 were presented to us without attaching relevant supporting documents. In the absence of such documents, it was difficult for audit team to ascertain whether the expenditure made was a correct charge to public funds.

**(g) Payments not reflected in the cashbook: K10,947,194.40**

Treasury Instruction 2004 section 5.9 (b) stipulates that all payments, receipts and other accounting transactions shall be entered and processed into the Integrated Financial Information System approved by the Secretary to the Treasury.

During the audit execution it was observed that payments amounting to K10,947,194.40 that were made during the year did not have a corresponding entry in the system cashbook as summarized below.



**Table 26: Payments not reflected in the cashbook**

<u>SECTOR</u>	<u>AMOUNT (K)</u>
Headquarter	9,376,404.40
DHO	1,570,790.00
<b>TOTAL</b>	<b><u>10,947,194.40</u></b>

**(h) Purchase of airtime not accounted for: K10,346,220**

Treasury Instruction 5.9 (b), as read together with Treasury Instruction 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

An examination of payment vouchers for the period under review showed that Machinga District Council secretariat and some devolved sectors, purchased telephone units prepaid cards (Airtime) valued at K10, 346, 220.00 for various officers and functions. However, their accountability could not be ascertained because the office did not provide any document of accountability as summarized below.

**Table 27: Purchase of airtime not accounted for**

<u>SECTOR</u>	<u>AMOUNT (K)</u>
Headquarter	2,910,500.00
DHO	5,325,720.00
DEM	2,110,000.00
<b>TOTAL</b>	<b><u>10,346,220.00</u></b>

**(i) Failure to physically verify actual receipt of food stuff delivered at Machinga DHO: K25,187,233.34**

It is a standing practice at the hospital that when food stuff is purchased at DHO, the Environmental Health Officers, District Health Officer, Accounts officer and administrator, should witness and verify the goods delivered before the invoice is raised.

Contrary to the laid down standing practice by the entity, the audit exercise observed that during the year 2016/2017, invoices for food stuff amounting to K25,187,233.33 were paid for without any of the above officers witnessing and verifying their delivery.

**(j) Procurement made Without Evidence of Sourcing At least Three Quotations: K10,283,502.37**

Section 35 (1) of the Public Procurement Act provides that when making procurements, at least three competitive quotations from different suppliers should be obtained.

Contrary to the requirement, Machinga District Hospital procured food items worth K10,283,502.37 from one supplier without evidence of sourcing at least three quotations.

**(k) Machinga DHO food stuff not accounted for: K12,583,474.34**

Treasury Instruction 11.7.1.5 requires that a stores ledger be opened and maintained for the purpose of recording receipts and issues of stores.

Contrary to this requirement, it was observed that during the year 2016/2017, food stuff worth K12,583,474.34 were not accounted for as there was no record in the rations ledgers to confirm the receipts and disposal of the goods.

**(l) Payment vouchers not presented for audit: K88,499,352.00**

Section 7 (1) (a) of the Public Audit Act, 2003 states that 'For the purpose of fulfilling the functions and duties lawfully conferred or imposed on the Auditor General, the Auditor General and every person authorized by him-shall have full access at all reasonable time to all documents, books and accounts, public funds, public securities, Government contracts and books; and accounts relating thereto and subject to audit, and to any place where they are kept'.

An examination of financial records revealed that Machinga DEM payment vouchers amounting to K88,499,352.00 were not produced for audit. The audit team was therefore not able to ascertain the authenticity and propriety of the payments made.

**(m) Payment of subsistence allowances without supporting authority "to leave duty station forms": K10,061,500.00**

Treasury Instructions 2004 section 5.9(a), state 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, Economic Planning and Development and National Audit Office staff. And in case of subsistence allowances authority to leave duty station forms should be firmly attached.

An examination of payment vouchers relating to subsistence allowance disclosed that payments amounting to K10,061,500.00 for the period under review had no authority to leave duty station forms. It was therefore difficult for the audit team to ascertain the propriety of these payments as there was no evidence to show that the trips in question were authentic and duly authorized by relevant authorities.

**Table 28: Payment of subsistence allowances without supporting authority "to leave duty station forms": -Machinga DC**

<u>SECTOR</u>	<u>AMOUNT (K)</u>
DHO	8,281,500.00
DEM	1,780,000.00
<b>TOTAL</b>	<b><u>10,061,500.00</u></b>

**(n) Non existence of projects: K19,870,569.79**

Guidelines for CDF (Revised), Project appraisal second paragraph reads "The District Commissioner/ Chief Executive shall assign the Director of Public Works and other relevant sector staff to ensure that all new infrastructural projects are appraised so that they adhere to acceptable Government and sectorial standards". Guideline 9 (Monitoring and evaluation) paragraph 2 reads "The member of parliament shall have primary responsibility for ensuring that projects in the Constituency are being implemented as planned" and guideline 7 paragraph 4 reads " the member of parliament shall provide written request to the DC/Chief Executive to release funds for satisfactory projects after the appraisal process".

However, contrary to the above, the audit team noted that payments were requested by Members of Parliament and paid for projects that did exist. This, therefore, eroded the Council the total funds amounting K19,870,569.79 as summarized below.

**Table 29: Non-existence of projects**

<u>Constituency</u>	<u>Amount</u>
Machinga Central	K16,083,845.14
Machinga North East	K481,508.65
Machinga Likwenu	<u>K3,305,216.00</u>
<b>Total</b>	<b><u>K19,870,569.79</u></b>

**(o) Failure to process CDF payments in IFMIS: K92,176,303.08**

Treasury Instruction 2004 section 5.9 (b) stipulates that all payments, receipts and other accounting transactions shall be entered and processed into the Integrated Financial Management Information System approved by the Secretary to the Treasury.

During the audit execution it was observed that CDF payments amounting to K92,176,303.08 that were made during the year did not have a corresponding entry in the IFMIS cashbook.

**(p) Lack of Evidence in following single sourcing procurement procedures: K9,103,935.00**

Public Procurement Act, 2003 requires that single source procurement method of procuring goods and services should be used if there is an emergency involving threat to physical safety of the population, in which case, the procuring entity should limit the procurement to the quantity and duration needed to deal with the urgent circumstances or only one supplier has the capability to fulfil the procurement requirement, or when the entity want to procure additional goods from the same supplier for purposes of standardization and compatibility.

An examination of stores and financial records of CDF for the period between July 2016 and June 2017 disclosed that management purchased various building materials valued at K9,103,935.00 from one supplier within a day without following the regulations.

**(q) Unsupported payments vouchers: K31,247,292.58**

Section 10 (a) of Public Finance Management Act 2003 requires the Controlling Officer to comply with the provisions of the Act while section 10 (c) requires the controlling Officer to maintain proper accounts and records of the Ministry or Department.

It was however noted that payments amounting to K31,247,292.58 were not adequately supported by third party documentation such as invoices for CDF suppliers of goods and services offered. The audit failed to ascertain the accountability of the funds.

**(r) Lack of adequate information on CDF projects being implemented**

Guidelines for CDF (Revised), Project appraisal second paragraph reads "The District Commissioner/ Chief Executive shall assign the Director of Public Works and other relevant sector staff to ensure that all new infrastructural projects are appraised so that they adhere to acceptable Government and sectorial standards", and CDF guideline No 9 Monitoring and evaluation paragraph 3 read "The VDC/NC/ADC/(UDC) where the project is located shall be responsible for day to day monitoring of CDF project.

It was noted that in Machinga Central and Machinga Likwenu CDF operations during implementation stage, the CDF committee members had little say in the running of the funds, with the Members of Parliament making all the decisions.

An interview with some Area and Village Development committee (ADC/VDC) members during audit verification found that most of the projects in these constituencies are being implemented without involvement of these committees. An example is that of Mtangaye school block which is being belt with support from the community, District

Education Manager's office and other well-wishers and yet financial records at the DC's secretariat show that CDF funds are used to construct the school block. Another example is that of bridges in Machinga Likwenu, where similar sentiments were echoed by committee members.

**(s) Payments made to contractors without certification by the PIC/ADC: K8,539,594.50**

Constituency Development Funds guidelines requires that when a project has reached a stage which requires the contractor to be paid his dues, the Project Implementation Committee (PIC) or the ADC shall make a recommendation or issue a certificate that the project has been implemented efficaciously, after that the technical personnel from the Council needs to verify if what the PIC has certified is true and later the payment should be effected.

Contrary to the above procedure, it was observed that payment vouchers made to contractors were made without certification by the PIC/ADC. In addition, these projects were not verified by the Council officials. These vouchers only had a copy of the funds authorization by the Member of Parliament. A total of K8,539,594.50 was made to contractors without certifications.

## **MANGOCHI DISTRICT COUNCIL**

43. An audit of the Mangochi District Council for the year ended 30th June, 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted the following observations:

**(a) Ineligible Expenditure on Purchase of Mini Bus Ambulances From CDF: K8, 030,000.00**

The objective of the CDF is to provide Members of Parliament and their constituents communities with the opportunity to make choices and implement projects that maximize their welfare in line with their needs and preferences. The CDF is there to respond to immediate, short term community development needs.

On the project identification, the CDF guidelines states that Members of Parliament, Councilors and Area Development Committees/Urban Development Committees shall be required to familiarize themselves with the key priorities of the District and included in the District Development Plan. The Member of Parliament should at least once in a year organize a meeting with the Chiefs, Councilors, ADC/Urban Development Committee within the constituency to identify and prioritize projects that meet the immediate socioeconomic needs of the people in the constituency that can be funded by CDF- including on-going projects

However, a review of payment vouchers and other records revealed that Mangochi District Council purchased 2 mini bus ambulances, thereby contravening CDF guidelines No. 5 which provides guidelines on the project identification. The amount involved was K8,030,000.00.

An interview with the Councilor and ADC Chair revealed that the villagers were not consulted and not even involved in the process of procuring these mini bus ambulances, and that the ambulances were not a priority because the Constituency had lined up other projects and among other priorities were boreholes and school blocks. However, the chair of the ADC revealed to the audit team that he was forced to sign on the forms with the undue influence from the Hon member so that payment was facilitated.

The audit team also discovered that this procurement of min buses overlooked at very important areas, such as the ownership of the ambulances, operating expenses of fuel, maintenance expenses and wages for the driver. Currently the ambulances are not operational

**(b) Failure To Produce Payment Vouchers To The Auditors For Review: K22,934,953.96**

Section 7 (1) (a) of the Public Audit Act, 2003 states that 'For the purpose of fulfilling the functions and duties lawfully conferred or imposed on the Auditor General, the Auditor General and every person authorized by him-shall have full access at all reasonable time to all documents, books and accounts, public funds, public securities, Government contracts and books; and accounts relating thereto and subject to audit, and to any place where they are kept'.

In addition, principles of sound public sector financial management requires public entities to meticulously budget for and utilize funds as approved by parliament to achieve properly planned outputs that benefits the citizens. The achieved outputs should be in tandem with the planned outputs.

However, the Council did not furnish the audit team with payment vouchers amounting to K22,934,953.96 during the year under review. It was, therefore, difficult for the audit team to validate the transactions

**(c) Payments For Projects But Not Yet Started: K8,674,154.70**

CDF guidelines Section 16.1 & 4 states that All contractors shall sign a contract with the Local Authority which will describe the work to be done, standards (design, drawings, and specifications) and stages at which payments will be made, and where applicable an agreed 10% retention plan. Final payment shall only be paid after issue of a certificate of completion. The contract shall determine who will sign of completion, depending on complexity of projects.

An inspection of the projects disclosed that payments amounting to K8,674,154.70 were already paid for some projects that had not started.

**(d) Payments Made Without Evidence of the Involvement of Internal Procurement Committee (IPC): K17,102,648.94**

Public Procurement Act section 8 provides the establishment of Internal Procurement Committee to oversee and ensure all procurements are deliberated and approved before effecting payment.

A review of some payments made by the Council and the supporting documents revealed that some decisions were made and payments effected amounting to K17,102, 648.94 without involvement of IPC.

**(e) Payment Vouchers Without Supporting Documents: K25,730,264.02**

Treasury Instructions 5.9 (a) encourages the need for retaining and filing documents supporting all payment transactions in such a way that they are easily and readily accessible to stakeholders.

A review of payment vouchers at the time of audit disclosed that payments totaling to K25,730,264.02 in respect of payment for the Council were not supported with the relevant documents such as receipts or invoices

**(f) Fuel Not Accounted For: K19,103,066.30**

Treasury Instruction 11.6 states that items of stores like fuel should be recorded in the fuel register before being issued out. It further states that Controlling Offices must ensure that an efficient system of stores procedures exists within the ministries or departments to sufficiently safeguard and govern procurement transactions.

A review of payments for purchase of fuel revealed that fuel amounting to K19,103,066.30 purchased in the year 2016/2017 was not supported with any record such as registers and motor vehicle log books. It was, therefore, difficult for the audit team to ascertain the disposal of the fuel.

**(g) Stores Items Not Accounted For: K21,609,461.57**

Treasury Instructions 11.7, among other things, requires that receipts and issues of all stores be recorded in the stores ledger for proper accountability.

An examination of payment vouchers, delivery notes, invoices disclosed that items valued at K21,609,461.57 were purchased from different suppliers but not entered into a stores ledger. As a result, accountability of the stores items could not be established i.e. whether goods purchased were delivered and properly utilized by the Council.

## **MCHINJI DISTRICT COUNCIL**

44. An audit of the Mchinji District Council for the year ended 30th June, 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Implementation of Un-Planned and Unbudgeted for Projects: K79,053,139.00**

Public Finance Management Act, 2003 section 25 requires that specific approval is required before any allocations can be vired or transferred between outputs. The PFM Act authorizes the Secretary to Treasury, with the approval of the Minister at the request of a Controlling Officer, to direct the virement or transfer of funds between the provisions assigned to programmes/ item under a Head/Vote of expenditure, or to create a new programme/item if the amount appropriated under the Head/Vote is not exceeded. If the Controlling Officer is satisfied that the provision against a Programme/item will be inadequate, he may submit an application to the Secretary to the Treasury for virement or transfer funds between a programme/item within the same Vote. The application should be in writing and should be signed personally by the Controlling Officer.

A review of records for CDF projects implemented in the financial year 2016/17 revealed that the Council incurred expenditure amounting to K79, 053,139.00 in respect of projects that were not reflected in the Council's plans and budget for the year.

**(b) Disallowed Expenditure K6,297,546.50**

CDF guidelines paragraph Number 4 state that all non- project related expenditures and all expenditures having an attribute of accruing personal benefit shall not be drawn against the CDF. Further bullet number six states that sponsorship of competitions of any kind including promotional activities is disallowed.

Contrary to this requirement, the Council made payments totaling K6,297,546.50 towards purchase of footballs, netballs and sports uniforms which are not covered in the CDF guidelines.

**(c) Fuel Not Accounted For: K1,775,291.60**

Treasury Instruction number 5.9 (b) requires Controlling Officers to ensure that all transactions are recorded in a primary Government record or ledger. It is the government policy that all government vehicles should have properly maintained logbooks and authorised trips to avoid over expenditure on fuel

Contrary to this requirement, the Council failed to produce records of how fuel worthy K1,775,291.60 purchased under the development account was used.



**d) CDF Payment Vouchers Not Presented For Audit: K12,749,100.25**

Section 7 (1) (a) of the Public Audit Act, 2003 states that 'For the purpose of fulfilling the functions and duties lawfully conferred or imposed on the Auditor General, the Auditor General and every person authorized by him shall have full access at all reasonable time to all documents, books and accounts, public funds, public securities, Government contracts and books; and accounts relating thereto and subject to audit, and to any place where they are kept'

Contrary to this requirement, a comparison of the payment vouchers presented against the Council's IFMIS cashbook entries for the year under review disclosed that CDF payment vouchers totaling K12,749,100.25 were not produced for audit inspection.

**ORT**

**(e) Payment Vouchers Without Adequate Supporting Documentation: K35,182,209.66**

Treasury instructions No.5.15.1 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 in such a way that they are easily and readily available.

It was observed that payment vouchers totaling K35,182,209.66 which no supporting documentation attached. In the absence of the supporting documents, the inspecting auditors could not ascertain the validity of the expenditure incurred.

**(f) Payment Vouchers Not Presented for Audit: K196,693,965.04**

Section 7 (1) (a) of the Public Audit Act, 2003 states that 'For the purpose of fulfilling the functions and duties lawfully conferred or imposed on the Auditor General, the Auditor General and every person authorized by him-shall have full access at all reasonable time to all documents, books and accounts, public funds, public securities, Government contracts and books; and accounts relating thereto and subject to audit, and to any place where they are kept.

However, an analysis of the payment vouchers presented against the cashbook disclosed that the Council did not produce for audit inspection payment vouchers totaling K196,693,965.04.

**Table 30: Payment Vouchers Not Presented for Audit**

<u>SECTOR</u>	<u>AMOUNT (K)</u>
DHO	83,775,522.85
Agriculture	50,588,810.00
Secretariat	40,993,209.50
Education	21,336,422.69
<b>TOTAL</b>	<b><u>196,693,965.04</u></b>

**(g) Fuel Not Accounted For K46,594,165.60**

Treasury Instruction number 5.9 (b) requires Controlling Officers to ensure that all transactions are recorded in a primary government record or ledger. It is the government policy that all government vehicles should have properly maintained logbooks and authorized trips to avoid over expenditure on fuel.

An examination of payment vouchers and other records for the year under review revealed that fuel valued at K46,594,165.60 was not recorded in the fuel register or on any other record. Consequently, the audit team could not ascertain the accountability of the fuel in question.

**(h) No Evidence of Recording Stores Items In the Ledger: K3,742,474.41**

Treasury Instruction 11.7.1 among other things requires that items of stores should be recorded in the fuel register before being issued out.

An examination of payments pertaining to stores purchases against the stores records kept at the Council for the year under review revealed that purchases amounting to K3,742,474.41 for various sectors could not be traced to the stores ledger. Therefore, it was difficult for the auditors to ascertain how these stores items were accounted for.

**(i) Payments Made Without Evidence of Sourcing At-least Three Quotations: K7,983,288.76**

The Section 35 (1) of the Public Procurement Act requires Controlling Officers to obtain a minimum of three quotations from different competitive suppliers when procuring goods and services using Request for Quotation (RFQ) method of procurement.

Contrary to the stipulated requirement, it was observed that during the year under review, the Council procured goods, works and services worth K7,983,288.76 without obtaining the required minimum number of quotations. It was therefore difficult to ascertain the propriety of such procurements.

**(j) Payments not reflected In the Cashbook: K20,374,127.60**

Chapter 8.8.1 of Local Authorities Accounting and Financial Management Procedures Manual requires that payment vouchers be entered in a combined receipt and payments cashbook as soon as the transaction takes place.

Contrary to this requirement, it was observed that the Council made payments amounting to K20,374,127.60 which could not be traced to the cash book.

**(k) Payments not authorised and countersigned: K25,006,119.85**

Treasury Instructions 5.16.2.1 and 5.16.2.3 require that payment vouchers and supporting documents should be properly authorised by all

responsible officers by signing all the payment vouchers and supporting documents in their own handwriting as evidence of being properly authorized and countersigned for payment.

Contrary to the requirement, the Council had payment vouchers totaling K25,006,119.85 in the financial year under review, without either being authorized or counter signed by relevant authorities. It was therefore difficult for the auditors to ascertain the propriety of such payments.

**(I) Cash Payments Not Liquidated: K4,978,969.90**

Treasury Instructions number 5.9 states that 'Every Controlling Officer shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance, Economic Planning and Development and National Audit office staff

Contrary to this requirement, the Council failed to produce liquidation documents for cash amounting to K4,978,969.90 paid to individuals to either pay others or buy goods and services on cash basis. The audit team was therefore, unable to ascertain the accountability of these funds.

**M'MBELWA DISTRICT COUNCIL**

45. An audit of M'mbelwa District Council for the years ended 30th June, 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Non Maintenance of Fixed Asset Register for the Whole Council.**

Chapter 16.7 of the Local Authorities Accounting and Financial Management Procedures Manual provides for the Council to maintain a fixed asset Register to record details of all non-current assets owned by the Council.

However, it was noted that the Council did not maintain a fixed asset register. In the absence of the register, the audit team could not obtain satisfaction as to the completeness and accuracy of the fixed assets. There is a risk that loss of fixed assets could not be ascertained due to lack of records.

**(b) Payment Vouchers Not Presented for Audit: MK179,406,809.84**

Public Audit Act (2003) Section 7 (1) (a) requires that controlling officers should provide the Auditor General with all the financial documents in order to enable him made proper opinion of the transactions made.

A review of payment vouchers and general ledgers revealed that payment vouchers amounting to MK179,406,809.84 were not presented to the auditing team. There is a risk of illegal payments actuality made.

The Table below has the details.

**Table 31: Payment Vouchers Not Presented for Audit**

<u>SECTOR</u>	<u>AMOUNT (MK)</u>
Headquarters	9,931,221.50
DHO	30,248,531.86
Various	139,227,056.48
<b>Total</b>	<b>179,406,809.84</b>

**(c) Failure to Remit Tax to MRA: K4,007,620.34**

Section 102 of the Taxation Act of Malawi requires that employers must deduct Pay As You Earn (PAYE) from the remuneration paid to employees and remit to Malawi Revenue Authority within 14 days of the end of the month in which it was deducted.

A review of transactions of the Council revealed that PAYE deductions from payment of salaries amounting to K2,015,661.97 and supplies of goods and services amounting to K1,991,958.37 were not remitted to MRA as required. This is non-compliance with laws and regulations, and as such, it attracts penalties from MRA that could have negative implications on the finances and reputation of the Council.

The Table below has the details.

**Table 32: Failure to Remit Tax to MRA**

<u>SECTOR</u>	<u>ITEM</u>	<u>AMOUNT (K)</u>
Headquarters	Supplies	1,991,958.37
DHO	Salary	2,015,661.97
<b>Total</b>		<b>4,007,620.34</b>

**(d) Failure to Provide Receipted Vouchers for (DADO): K1,503,883.20**

Government regulations require that all the payments made to individuals should be supported by a signed copy of the recipients as a proof that the funds have been received by the intended recipient.

Contrary to the requirement, a review of payments made to individuals revealed that the District Agriculture Development Office (DADO) made payments amounting to K1,503,883.20 which were not supported by receipted vouchers.

**(e) Fuel Not Accounted For: -K17,428,059.72**

Treasury Instruction 5.9(b), as read together with Treasury Instruction 5.13.1 require, among other things, that Controlling Officers should

ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

Contrary to the above requirement, a review of fuel expenses at District Agriculture Development Office revealed that fuel amounting to K17,428,059.72 was not recorded in the fuel register and motor vehicle log books. In the absence of these records it was difficult to ascertain how the fuel purchased was accounted for.

**(f) Failure to Record Stores Items in Stores Ledger: K41,879,724.20**

Treasury Instruction 11.7.1 among other things requires that items of stores should be recorded in the fuel register before being issued out.

Contrary to the above requirement, a review of transactions of the Council's records for the period under review revealed that purchased stores items amounting to K41,879,724.20 were not recorded in stores ledger. In the absence of disposal records it was difficult to ascertain how the stores were accounted for. The table below has the details.

**Table 33: Failure to Record Items in Stores ledger**

<u>SECTOR</u>	<u>AMOUNT (K)</u>
DADO	10,348,278.40
LDF	31,531,445.8
CDF	12,120,701.52
<b>Total</b>	<b>41,879,724.20</b>

**(g) Payment Vouchers not recorded in cash book :K9,709,443.37**

Chapter 8.8.1 of Local Authorities Accounting and Financial Management Procedures Manual requires that payment vouchers be entered in a combined receipt and payments cashbook as soon as the transaction takes place.

An examination of payment vouchers and other accounting records for District Agriculture Development Office: Agriculture Sector revealed that payments totaling K9,709,443.37 incurred between July, 2016 and June, 2017 were not recorded in the cashbook as per Treasury Instructions requirements. This could lead to Financial reports being misstated.

**(h) Misallocation of Expenditure: MK7,381,411.00**

Treasury Instructions No 4.14.1 stipulates that if the Controlling Officer is satisfied that the provision against a programme/item shall be inadequate, he shall submit an application to the Secretary to the Treasury to vire or transfer funds between a programme/item within the same Vote. The application shall be in writing and shall be signed personally by the Controlling Officer.

A review of payment vouchers and general ledgers at District Agriculture Development Office revealed that payments amounting to MK7,381,411,00 were charged against wrong budget lines. There was no evidence to show that there was Treasury authority to vire funds between expenditure budget lines.

**(i) IPC Minutes Not Provided For Audit: MK6,459,480.50**

Public Audit Act, Section 7 (1) (a) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access to all documents and books of accounts, among other things, that are subject to audit for his examination.

Contrary to this requirement, the District Health Office (DHO) procured goods and services amounting to K6,459,480.50 which had no evidence that the IPC approved the procurements. The council failed to produce the IPC minutes for audit verification. As such the validity and accuracy of the procured goods could not be confirmed.

**(j) Payments to CDF Projects Whose Existence had No Evidence: K8,197,305.52.**

An audit inspection revealed that M'mbelwa District Council paid K8,197,305.52 to projects in a number of constituencies whose existence was not substantiated. The team could not establish existence of the following projects: Mzalangwe Police unit, Kachere CDSS and Khonsolo Health Unit Extension, Chankhalamu School and Unyolo Health center despite materials being purchased for the projects. Materials procured for the alleged projects may not have been used for intended purposes.

**MULANJE DISTRICT COUNCIL**

46. An audit inspection of the financial and other information for Mulanje District Council for the year ended 30th June 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Payment Vouchers Presented Without Adequate Supporting Documents: K6,728,557.40**

Treasury Instruction 5.26.1 stipulates that a payment shall be made where, a copy of the local purchase order (contract agreement), an invoice and goods received note or certificates are attached to the payment voucher.

An inspection of payment vouchers for locally generated revenue for the period between July, 2016 to June 2017 showed that payment vouchers amounting to K6,728,557.40 had no adequate supporting documents attached. The Council was paying commissions to the Market Revenue

Collectors without attaching relevant documents as evidence that payments were made to the right beneficiaries.

**(b) Payment Vouchers Not Presented For Audit: K37,926,956.40**

The Public Audit Act Section 7 (1) (a) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access to all documents and books of accounts, among other things, that are subject to audit for his examination.

Contrary to this requirement, management of Mulanje District Council failed to furnish the audit team with payment vouchers on ORT and Locally Generated Revenue expenditures amounting to K37,926,956.40 despite efforts from audit team to have them audited. Below is a summary per account:

**Table 34: Payment Vouchers Not Presented for Audit**

<u>Account</u>	<u>Amount (K)</u>
Locally Generated Revenue	9,876,407.82
ORT	28,050,550.58
Local Development Fund	117,950,965.98
<b>Total</b>	<b>155,877,924.38</b>

**(c) Cheques Not Recorded In The Cheque Dispatch Register: K17,418,243.90**

Treasury Instruction 5.15.2 requires all transactions be recorded in a primary Government record or ledger, either within the records held by a Ministry with the approval of the Secretary to the Treasury and summarised in the ledgers held by the Ministry of Finance, or in a record maintained by the Ministry of Finance;

An examination of payment vouchers for the Secretariat against the cheque dispatch register revealed that cheques amounting to K17,418,243.90 could not be traced in the cheque dispatch register. As such it was not possible to ascertain whether the cheques were collected by the legitimate owners.

**(d) CDF Projects Not Budgeted For: K140,703,943.96.**

Treasury Instructions Number 4.13.2 states among other things that unless otherwise indicated in the notes in the approved estimates, every Controlling Officer shall ensure that expenditure is in accordance with budgetary provisions, and that there are no over-expenditures.

An examination of Constituency Development Fund (CDF) expenditure records revealed that projects and activities totaling K140,703,943.96 for (CDF) were not budgeted for during the period under review. In the absence of the budget, it was not known how the council managed to pay for the projects.

**(e) Construction Materials Procured Without Evidence of the Approval of The IPC: K12,397,771.00**

Section 18 of Public Procurement Act, 2003 requires public officials involved in procurement process to, among others, discharge duties impartially, act in the public interest, avoid conflicts of interest and impropriety, and not commit or abet corrupt or fraudulent practices. Section 18(2) also requires suppliers to avoid collusion and corrupt or fraudulent practices.

An examination of procurements for CDF projects for the financial year under review established that the council made payments amounting to K12,397,771.00 had no evidence that they were approved by IPC since IPC Minutes in respect of the procurements were not presented for audit review.

**MWANZA DISTRICT COUNCIL**

47. An audit inspection of the financial and other information for Mwanza District Council for the years ended June 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls and other related gaps as highlighted in the following observations:

**(a) Non Maintenance of Revenue Cash Book: K33,637,011.00**

Treasury Instructions 5.9 (a) states that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance and National Audit office staff

Contrary to the above requirement, an examination of revenue records for the period under review disclosed that the Council did not maintain revenue cash book as such revenue corrected amounting to K33,637,011.00 was not recorded in the cash book as detailed in Table below;

**Table 35: Non Maintenance of Revenue Cash Book**

<u>PERIOD</u>	<u>GR NOS</u>	<u>DETAILS</u>	<u>AMOUNT (MK)</u>
01/07-03/08/16	990-1050	Various fees	2,904,200.00
03/08-11/10/16	1952-2100	Various fees	9,795,075.00
12/10/16-07/02/17	2551-2699	Various fees	12,733,496.00
05/02-16/06/17	2251-2400	Various fees	8,204,240.00
<b>TOTAL</b>			<b><u>33,637,011.00</u></b>



**(b) CDF Construction Materials Without Evidence of Delivery: K12,519,490.49**

Treasury Instructions 11.7 of 2004 requires that receipts and issues of all stores be recorded in the stores ledger for proper accountability..

Contrary to the above requirement, an examination of stores records pertaining to Constituency Development Fund revealed that items amounting to K12,519,490.49 purchased during the period between December 2016 and April 2017 had no evidence of delivery since receipts and disposal records were not provided.

**(c) (CDF) Payments Made For Items Without Evidence of Delivery: K43,169,476.72**

Treasury Instruction 5.19.1 states that payment for goods and services received shall be effected upon verification and confirmation that goods were received or that services were rendered.

An audit inspection of payment vouchers, invoices and stores ledgers disclosed that payments from Constituency Development Fund (CDF) materials at the Head Office as well as Sectors on Health, Agriculture and Education amounting to K43,169,476.72 were made between May and June 2017 but there was no record as evidence that delivery of items was done. A summary per sector is as follows:

**Table 36: (CDF) Payments Made For Items Without Evidence of Delivery**

<u>Sector</u>	<u>Amount (K)</u>
Head Office	1,105,543.20
Health	12,798,467.05
Agriculture	3,776,506.72
Education	25,488,959.75
<b>Total</b>	<b><u>43,169,476.72</u></b>

**(d) (DDF) Payments Made For Items Without Evidence of Delivery: K17,432,448.00**

Paragraph 2.1.8 of the Revised Local Authorities Accounting and Financial Management Procedures Manual 2009 requires that stores items should be properly kept, recorded and accounted for.

Contrary to this requirement, an examination of stores records pertaining to General Resource Fund (District Development Fund) revealed that items amounting to K17,432,448.00 purchased during the period under review were not accounted for since there was no record as evidence that the goods were delivered to the Council. A summary is as follows:

**Table 37: (DDF) Payments Made For Items Without Evidence of Delivery**

<u>Sector</u>	<u>Amount (K)</u>
Headquarters	12,155,248.00
Education	5,277,200.00
<b>Total</b>	<b>17,432,448.00</b>

**(e) Fuel Not Accounted For: K14,524,548.00**

Treasury Instruction 5.9 (b), as read together with Treasury Instruction 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

An inspection of payments for purchase of fuel from Other Recurrent Transaction (ORT) revealed that fuel amounting to K14,524,548.00 purchased in the year under audit had no accountability records such as fuel register and motor vehicle log books. It was therefore, difficult for the audit team to ascertain the disposal of the fuel. Below is a summary of the details:

**Table 38: Fuel Not Accounted For**

<u>Sector</u>	<u>Amount (K)</u>
Headquarters	11,275,584.08
Education	3,248,963.92
<b>Total</b>	<b>14,524,548.00</b>

**(f) Telephone Units Not Accounted For: K3,073,000.00**

Treasury Instruction 5.13.1 inter alia states that adequate internal controls must exist within each Ministry and Department to meet control objectives which ensure that resources are employed and managed in an effective, economic and efficient manner and that there is no waste or extravagance.

An inspection of Other Recurrent Transaction (ORT) payment vouchers revealed that management failed to produce accountability records for the purchased airtime valued at K3,073,000.00. As such, the audit team was unable to ascertain its accountability.

**(i) Payments Made Outside IFMIS: K42,063,933.52**

Treasury Instruction (2004) 5.10 states that all payments, receipts and other accounting transactions must be entered and processed into integrated financial management system(IFMIS) approved by the Secretary to the treasury to enhance transparency and accountability of public funds.

However, it was noted that the Council made manual payments totaling to K42,063,933.52 outside the IFMIS which was contrary to the instruction mentioned above. There was no proper explanation why management made such payments. The Table below is a summary of the payments in question:

**Table 39: Payments Made Outside IFMIS**

<u>Sector</u>	<u>Amount (K)</u>
Health	12,798,467.05
Education	25,488,959.75
Agriculture	3,776,506.72
<b>Total</b>	<b><u>42,063,933.52</u></b>

## **MZUZU CITY COUNCIL**

48. An audit of the Accounts of Mzuzu City Council for the years ended 30th June, 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Payment Vouchers Without Adequate Supporting Documentation: K34,301,589.72**

Treasury Instructions No 5.15.1 States that every Controlling Officer shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance, Economic Planning and Development and National Audit Office.

An examination of payment vouchers for the period under review revealed that payments amounting to K34,301,589.72 were submitted for audit without supporting documents attached. Consequently, the propriety of the related expenditure could not be verified. The table below has the breakdown.

**Table 40: Payment Vouchers Without Adequate Supporting Documentation-**

<u>SECTOR/ITEM</u>	<u>AMOUNT (K)</u>
GRF	15,841,112.48
CDF	1,639,021.00
LDF	5,259,037.00
IDF	4,575,580.27
MZUZU DEM	6,986,838.97
<b>Total</b>	<b><u>34,301,589.72</u></b>

**(b) Signing Sheets Not Provided For Audit Examination: K5,909,659.00**

Treasury Instructions No 5.26.6 stipulates that the person making the payment shall file properly all paid documents duly stamped 'PAID' together with an acknowledgement of receipt from the beneficiary.

Contrary to the above quoted instruction, the Council paid allowances and fuel to various recipients amounting to K4,886,059.00 and K1,023,600.00 in respect to General Resource Fund (GRF) and Infrastructure Development Fund (IDF) respectively, which were not supported by signing sheets. As a result, the accountability of the allowances and the fuel could not be determined.

**(c) Items Procured Not Supported By Delivery Notes: K4,984,469.55**

Treasury Instructions 11.7 of 2004 requires that receipts and issues of all stores be recorded in the stores ledger for proper accountability.

An examination of payment vouchers for the period under review revealed that payment vouchers totaling K1,299,390.80 and K3,685,078.75 in respect to Infrastructure Development Fund (IDF) and Mzuzu District Educational Manager's (DEM) Office respectively had no evidence that the items procured were delivered. Consequently, it was difficult for the inspecting auditors to verify whether the procured items were delivered or not.

**(d) Procurement Made Without Evidence of IPC Approval: K11,025,089.70**

Public Procurement Regulation No 18(1) stipulates the general functions of the Internal Procurement Committee (IPC), which includes approving all procurements in ministries, departments, parastatals and organisations.

An examination of payment vouchers and IPC minutes for the period of the audit revealed that procurements totaling K11,025,089.70 were made without evidence of IPC approval, which is in contrast to the above quoted instruction. Accordingly, the inspecting auditors failed to determine if the Council achieved value for money when making the procurements. The table below has the break down.

**Table 41: Procurement Made Without Evidence of IPC Approval**

<u>SECTOR/ITEM</u>	<u>AMOUNT(K)</u>
GRF	1,112,649.33
PUSH project	8,630,359.77
Mzuzu DEM	1,282,080.60
<b>Total</b>	<b><u>11,025,089.70</u></b>

**(e) Procurement File For Peri Urban Sanitation and Housing Project (PUSH) Not Provided For Audit Examination” K18,275,273.72**

Public Audit Act, Section 7 (1) (a) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access to all documents and books of accounts, among other things, that are subject to audit for his examination.

An examination of procurement files for the period under review revealed that the Council failed to provide for audit inspection a procurement file for construction of Msiro Waste Management Facility. As a result, the audit team failed to verify if procurement regulations and procedures were followed in selecting Tikhalelawo Building Contractor as the lowest evaluated bidder and if value for money was achieved when paying K18,275,273.72 to Tikhalelawo Building Contractor.

**(f) Revenue Not Banked-K27,332,733.61**

Treasury Instructions 5.9.6 stipulates that public money shall be paid into Government bank accounts designated by the Secretary to the Treasury for that purpose, and these accounts shall form part of the Consolidated Fund. In addition, the Local Assembly Financial Procedures Manual Chapter 2.1.2 (c) stipulates that all monies collected from any source should be deposited intact into the LA's bank account(s).

An examination of general receipts against deposit slips and bank statements revealed that revenue collected amounting to K27,332,733.61 for the period of the audit review was not banked. Furthermore, the audit team could not determine how the un-banked revenue was accounted for.

**(g) Non-Remittance Of Pay As You Earn (PAYE) Tax: K157,973,155.45**

The Local Assembly Financial Procedures Manual Chapter 1.3.4 (j) states that the roles of district commissioners and chief executives shall include ensuring that any tax, duty, fee, levy or other charge imposed by legislation for which the Local Authority is responsible is collected promptly and to the fullest extent.

An examination of the payroll records for the period ending 30th June, 2017 revealed that Mzuzu City Council was in arrears on deduction and remittance of pay as you earn tax (PAYE) amounting to K157,973,155.45.

**(h) Funds Used For Unrelated Activities: K11,087,517.20**

Treasury Instruction 4.13.2 states among other things that unless otherwise indicated in the notes in the approved estimates, every Controlling Officer shall ensure that expenditure is in accordance with budgetary provisions, and that there are no over-expenditures.

An inspection of sampled payment vouchers and other related documents for the period under review revealed that funds amounting to K11,087,517.20 were used for unrelated activities. Consequently, there is a possibility that the Council did not undertake some budgeted activities because it diverted funds to unrelated activities.

**(i) Failure To Remit Councilors' Motor Cycle Loan Deductions: K4,887,499.50**

A Letter from the National Local Government Finance Committee No NLGFC/FIN/20/24 dated 25th July, 2016 stipulates that recoveries of ward Councilors' motor cycle loans should be within two weeks after monthly funding at the rate of K36,203.70 per month for the 15 ward Councilors of Mzuzu City.

An inspection of payment vouchers for the period under review revealed that Mzuzu City Council did not remit ward Councilors motor cycle loan recovery deductions amounting to K4,887,499.50 for nine months to the National Local Government Finance Committee as required by the above quoted letter

**(j) Payment Vouchers for CDF Not Presented For Audit Inspection- K1,417,578.90**

Public Audit Act, Section 7 (1) (a) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access to all documents and books of accounts, among other things, that are subject to audit for his examination.

Contrary to this instruction, the audit revealed that CDF vouchers amounting to K1,417,578.90 for the period of the review were not presented for audit inspection. Consequently, the accountability of the expenditure could not be verified.

**(k) Payments for CDF With No Evidence of Payment Vouchers: K1,045,475.00**

Treasury Instructions 5.26.1 stipulates that payment for goods and services received shall be effected upon verification and confirmation that goods were received or that those services were rendered. Payment shall be made where, a copy of the local purchase order, an invoice and goods received note are attached to the payment voucher.

Contrary to the above quoted instruction, Mzuzu City Council effected payments amounting to K1,045,475.00 without evidence of payment vouchers. As a result, the audit team failed to ascertain the propriety of the expenditure incurred

**(l) Unbudgeted Project Activities: K7,268,896.59**

Treasury Instructions Number 4.13.2 states among other things that unless otherwise indicated in the notes in the approved estimates, every Controlling Officer shall ensure that expenditure is in accordance with budgetary provisions, and that there are no over-expenditures.

An inspection of the Local Development Fund (LDF) budget, Masasa bridge procurement file, Infrastructure development fund (IDF) budget and the related payment vouchers revealed that the office spent K2,182,680.00 for Masasa bridge which was not budgeted for under 2016/17 Local Development Fund program. Furthermore, the office spent K 5,084,216.59 on un-budgeted for LDF activities. As a result, there is a high possibility that the Council did not meet its budget.

**(m) Fuel for LDF Not Accounted For: K2,960,415.20**

Treasury Instructions Number 5.15.2 requires all transactions to be recorded in a primary government record or ledger.

An inspection of payment vouchers for LDF against the fuel register revealed that fuel worth K2,960,415.20 purchased during the year under review was not recorded in the fuel register. Consequently, the audit team could not ascertain how the fuel was accounted for.

**(n) Expenditure Not Recorded In The Integrated Financial Management Information System (IFMIS): K8,618,297.27**

Payment vouchers for the period under review were posted to the integrated management information system (IFMIS) of the Council and it was discovered that payments amounting to K7,587,318.27 and K1,030,979.00 in respect of Infrastructure Development Fund (IDF) and Mzuzu DEM respectively were not recorded in the IFMIS. Therefore, the audit team failed to determine the truth and fairness of the electronic expenditure returns provided for audit examination.

**(o) Grants Provided To Schools Through Banks Not Supported By Deposit Slips: K6,986,838.97**

Treasury Instructions No 5.15.1 states that every controlling officer shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance, Economic Planning and Development and National Audit Office.

An inspection of payment vouchers for the period between 10th October, 2016 and 27th June, 2017 disclosed that the Council submitted payments paid through Mzuzu District Educational Manager's (Mzuzu DEM) account amounting to K6,986,838.97 without attaching supporting

documents such as deposit slips and general receipts. Consequently, it was difficult for the inspecting auditors to ascertain the propriety of the expenditure.

#### **NENO DISTRICT COUNCIL**

49. An audit of the Accounts of Neno District Council for the year ended 30th June, 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Rental Arrears From Council Houses And Shops Not Collected From Tenants:- K1,378,000.00**

An examination of debtors records disclosed that some rental arrears from Council houses and shops amounting to K881,500.00 and K497,000.00 respectively were yet to be collected from tenants as at the time of audit.

**(b) Failure To Remit PAYE Tax To MRA: K4,718,794.96**

Taxation Act (14:01) requires that employers must deduct Pay as You Earn (PAYE) from the remuneration paid to employees and remit it to Malawi Revenue Authority within 14 days of the end of the month in which it was deducted.

A review of payment vouchers on salary and wages from July, 2016 to June, 2017 revealed that PAYE tax amounting to K4,718,794.96 was not remitted to the Malawi Revenue Authority.

**(c) Money Borrowed From DDF Account Not Yet Refunded:- K6,531,987.75**

An inspection of cash books along with payment vouchers disclosed that some DDF funds amounting to K6,531,987.75 were borrowed to cater for other activities but had not yet been refunded.

**(d) Delivery Notes For Purchases Of 259 Goats Not Produced For Audit: K3,880,000.00**

Public Audit Act, Section 7 (1) (a) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access to all documents and books of accounts, among other things, that are subject to audit for his examination

An examination of payment vouchers disclosed that the office bought 259 goats valued at K3,880,000.00 meant to be distributed to farmers. It was however noted that delivery notes were not produced for audit to confirm that the goats were really delivered and distributed to the farmers.



**(e) Purchases Of Fuel Not Accounted For: K20,202,387.60**

Treasury Instruction 11.7.1.5 states that a stores ledger for the purpose of recording the receipts and issues of all stores will be kept for each store for proper accountability.

An examination of fuel records disclosed that fuel purchases valued at K20,202,387.60 was not recorded in the fuel register. In the absence of disposal records, it was therefore difficult to ascertain the accountability of fuel.

**(f) Delivery Notes For Supply Of Materials Not Produced For Audit: K7,355,846.00**

Public Audit Act, Section 7 (1) (a) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access to all documents and books of accounts, among other things, that are subject to audit for his examination.

An examination of payment vouchers disclosed that the council purchased some materials valued at K7,355,846.00 but there was no evidence that they were delivered since delivery notes for materials or stores ledgers were not produced for audit.

**(g) Dambe Court Constructed Below Window Level But Fully Paid For:- K8,056,589.76**

Treasury Instruction 2.6.1(h) requires that all expenditures incurred should be with regard to economy, efficiency and effectiveness and the avoidance of waste.

An audit verification of projects carried out under Constituency Development Fund disclosed that the construction Dambe Court in Neno North constituency was at below window level and the quality of the work done was sub-standard. It was however, noted that the contractor was paid a full amount of K8,056,589.76 although the work had not yet been completed as at the date of audit. Below are the payment details:

**Table 42: Dambe Court Construction Below Window Level But Fully Paid For**

<u>DATE</u>	<u>PAYEE</u>	<u>DETAILS</u>	<u>CHEQUE</u>		<u>CONSTITUENCY</u>
			<u>NO.</u>	<u>AMOUNT</u>	
20.04.2017	Chemakanda Contrators	Dambe court construction	7734	3,322,305.06	Neno North
30.06.2016	Chemakanda Contractors	Dambe court construction	008143	4,734,284.70	Neno North
<b>TOTAL</b>				<b><u>8,056,589.76</u></b>	

**(h) Bid Documents Not Produced For Audit: K15,927,789.76**

Public Audit Act, Section 7 (1) (a) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access to all documents and books of accounts, among other things, that are subject to audit for his examination

An examination of payment vouchers along with contract agreement forms disclosed that bid documents for awarding of contracts valued at K15,927,789.76 to various contractors were not produced for audit inspection. It was therefore difficult to ascertain the process of awarding contracts to various contractors in absence of bid documents

**(i) Wages For MASAF Projects Not Signed For By Recipients But Alleged To Have Been Paid:- K8,625,600.00**

Treasury Instructions No 5.26.6 stipulates that the person making the payment shall file properly all paid documents duly stamped 'PAID' together with an acknowledgement of receipt from the beneficiary.

An examination of payment vouchers disclosed that some receipted payments voucher in respect of wages for MASAF projects amounting to K8,625,600.00 were not signed for by recipients. It was noted that the money was collected by project supervisors and was alleged to have been paid to the employees.

**(j) Contract Agreements Not Produced For Audit: K25,624,074.31**

Public Audit Act, Section 7 (1) (a) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access to all documents and books of accounts, among other things, that are subject to audit for his examination.

An examination of payment vouchers disclosed that some contract agreement forms for construction works which were paid amounting to K25,624,074.31 were not presented for audit.

**(k) Payments For Meals And Lunch Allowances Without Supporting Cash Sale Receipts And Receipted Vouchers: K1,334,500.00**

Treasury Instructions No 5.15.1 States that every Controlling Officer shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance and National Audit Office.

An examination of payment vouchers and their supporting documents revealed that payment vouchers amounting to K1,334,500.00 had no supporting documents such as cash sales and receipted vouchers as at the time of audit. As a result, the audit team failed to ascertain the accountability of the related expenditure.

**(l) Purchases Of Fuel Not Accounted for: K19,538,250.00**

Treasury Instruction number 5.9(b) requires Controlling Officers to ensure that all transactions are recorded in a primary government record or ledger.

An examination of payment vouchers revealed that the office purchased fuel amounting to K19,538,250.00 but there was no evidence to show that the purchased fuel was recorded in the fuel register. This made it difficult for the inspecting auditors to ascertain the disposal of the purchased items.

**(m) Subsistence Allowances Paid Without Authority To Leave Duty Station Forms:- K3,823,850.00**

Treasury Instructions No 5.15.1 States that every Controlling Officer shall ensure that Proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance and National Audit Office.

An examination of payment vouchers for the 2016/17 financial year revealed that subsistence allowances amounting to K3,823,850.00 were not supported by request to leave duty station forms. Consequently, the audit team was unable to ascertain the accountability of the public funds used.

**NKHATABAY DISTRICT COUNCIL**

50. An audit of Nkhata Bay District Council for the year ended 30th June, 2017 was completed on 30th November, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Payment Vouchers Not Entered In Cashbook: K51,424,461.04**

Generally Accepted Accounting Procedures require that bank and cash transactions should be properly captured in cashbooks to ensure completeness of reports.

A review of transactions revealed that payment vouchers amounting to K51,424,461.04 were not captured in the cashbook. Therefore, financial reports prepared using this information may not be accurate and reliable. The Table below has the details

**Table 43: Payment Vouchers Not Entered In Cashbook:**

<u>COST CENTRE</u>	<u>AMOUNT (K)</u>
LDF	31,109,200.00
Youth	1,238,348.92
DDF	1,510,200.00
Fisheries	2,343,203.40
CDF	11,268,460.72
Labour	1,475,700.00
Education Sector	2,479,348.00
	<u>51,424,461.04</u>

**(b) Payment Vouchers Without Supporting Documents: K27,118,964.61**

Treasury Instruction (2004) 5.16.1 requires every Controlling Officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

An examination of the financial records disclosed that payment vouchers amounting to K27,118,964.61 had no supporting documents like receipts, and loose minutes at the time of audit. In absence of the supporting documents it was difficult to ascertain whether the payments were a proper charge to public funds. Below are the details;

**Table 44: Payment Vouchers Without Supporting Documents:**

<u>COST CENTRE</u>	<u>AMOUNT (K)</u>
CDF	6,970,830.60
Education Sector	11,466,392.75
Health Sector	7,651,736.36
Secretariat GRF	1,030,004.90
<b>Total</b>	<u><b>27,118,964.61</b></u>

**(c) Stores Items Not Accounted For: K143,639,278.30**

Treasury Instruction (2004) 11.7, among other things, requires that receipts and issues of all stores be recorded in the stores ledger for proper accountability.

An examination of the stores records for the year ended 30th June, 2017 revealed that the Council purchased stores amounting to K143,639,278.30 but the audit team could not ascertain how the stores were used because the items purchased were not recorded in the stores ledger. As a result, it was difficult for the audit team to confirm whether

goods purchased were officially utilized by the Council. The Table below has the details;

**Table 45: Stores Items Not Accounted For**

<b><u>COST CENTRE</u></b>	<b><u>AMOUNT (K)</u></b>
LDF	3,585,983.30
Health	4,264,904.00
DDF	8,195,879.50
CDF	61,740,507.86
ADAPT Plan	64,269,657.16
Education Sector	1,582,346.48
<b>Total</b>	<b><u>143,639,278.30</u></b>

**(d) Fuel Not Accounted For: K27,127,893.32**

Treasury Instruction (2004) 5.9 (b), as read together with Treasury Instruction 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

An examination of fuel records disclosed that fuel worth K27,127,893.32 was not recorded in fuel registers. In the absence of fuel records, accountability of fuel could not be ascertained. Below are the details.

**Table 46: Fuel Not Accounted For**

<b><u>COST CENTRE</u></b>	<b><u>AMOUNT (K)</u></b>
LDF	3,567,982.00
Secretariat GRF	2,734,438.00
Gender	1,871,654.71
Fisheries	1,460,981.61
Labour	2,146,500.00
Immigration	1,568,500.00
CDF	562,157.00
Youth	1,323,333.00
ADAPT Plan	5,207,158.00
Education Sector	6,685,189.00
<b>Total</b>	<b><u>27,127,893.32</u></b>

**(e) Payment vouchers not presented for audit: K29,736,250.00**

Public Audit Act, Section 7 (1) (a) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access to all documents and books of accounts, among other things, that are subject to audit for his examination.

Contrary to this requirement, payment vouchers amounting to K29,736,250.00 were not produced for audit. Table below has the details;

**Table 47: Payment vouchers not presented for audit:**

<b><u>COST CENTRE</u></b>	<b><u>AMOUNT (K)</u></b>
Secretariat GRF	29,455,295.94
Gender	983,932.06
Fisheries	3,360,197.00
CDF	29,736,250.00
Youth	1,166,070.00
<b>Total</b>	<b><u>64,701,745.00</u></b>

## **HEALTH SECTOR**

### **(f) Misallocation of Expenditure Charges: K19,732,600.00**

Treasury Instruction (2003), 4.14.1 states that specific approval is required before any allocations can be vired or transferred between a programme/item within the same Vote. The section further states that if the Controlling Officer is satisfied that the provision against a programme/item will be inadequate, he may submit an application to the Secretary to the Treasury in writing to vire or transfer funds between a programme/item within the same Vote.

A review of payment vouchers for the Health Sector revealed that management misallocated funds amounting to K19,732,600.00 without obtaining prior approval from the Secretary to the Treasury. Activities which the funds were originally budgeted for would be negatively affected and the misallocations would lead to over expenditures on those items where the extra funds have been used.

### **(g) Failure to Deduct Withholding Tax: K3,925,304.33**

Taxation Act (2000) (14:01) requires among other things, that withholding Tax be deducted at source when effecting payments to suppliers of goods and services who have no proof of a valid Withholding Tax Exemption Certificate and Sections 102(A) and 146 (6) of the Act require that the amounts of withholding tax deducted should be remitted to the Malawi Revenue Authority within 14 days from the end of the month in which such deduction was made.

A review of the payments for the Health Sector revealed that withholding tax totaling K3,925,304.33 was not deducted from payments made to various suppliers of goods and services, who did not have withholding tax exemption certificates. Failure to deduct withholding tax leads to loss of government revenue which might have been used to fund other Government activities.

**(h) Payment made using photocopied supporting document: K2,399,660.00**

An inspection of payment vouchers relating to procurement revealed that some payment vouchers with total payments of K2,399,660.00 had photocopied invoices which were used for payment. Payments may be duplicated leading to loss of public resources.

**NKHOTAKOTA DISTRICT COUNCIL**

51. An audit of Nkhota-kota District Council for the year ended 30th June, 2017 was completed in August 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Internal Borrowing from Education Sector: 16,674,916.87**

Treasury Instruction 4.13.2 states that all expenditure must be charged to the appropriate Vote/Programme and spent for the intended purposes in accordance with the approved budget estimates. The instructions further states that no expenditure for that purpose may be charged to any other Vote/Programme without Treasury approval.

Contrary to the above requirement, an examination of the vote control ledger and other related records on the School Improvement Grant (SIG) for the year under review disclosed that Nkhotakota District Council borrowed funds from the Education Sector amounting to K6,045,653.61, K7,284,404.28 and K3,344,857.98 paid on Cheque numbers 026777, 026968 and 027383 respectively. It was also observed that as at the time of audit the amounts had not yet been refunded to the Education Sector.

**(b) Failure to Prepare Payment Vouchers: K29,617,850.52**

Treasury Instructions of 2004, Section 5.16.2.3 and 5.16.2.4 require that every payment voucher in respect of expenditure be in a form approved by the Secretary to the Treasury. This includes General Payment Vouchers (GPVs) and Local Purchase Orders (LPOs) and that a payment voucher must be computer generated, typed or completed with a ballpoint pen.

Contrary to the above instruction, a review of payment records disclosed that payments amounting to K29,617,850.52 had no evidence of payment vouchers but rather based on paper requests.

**(c) Payment Voucher Without Adequate Supporting documentation: K16,301,153.63**

Treasury Instructions No 5.15.1 States that every Controlling Officer shall ensure that Proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and

readily accessible, and can be produced immediately upon the request of Ministry of Finance and National Audit Office.

Contrary to the above instruction, an examination of payment vouchers for period under review revealed that payment vouchers totaling K16,301,153.61 had no supporting loose minutes, receipts and invoices. In the absence of the supporting documents it was difficult to ascertain whether the payments were a proper charge against public funds.

**(d) Fuel Purchased but Not Recorded in the Fuel Register: K34,804,820**

Treasury Instruction 11.6 of 2004 and Section 20.2 of the Local Authorities Accounting and Financial Management and Procedures Manual 2003, require all fuel purchased to be recorded in the fuel registers and issues signed for by the recipients. Fuel drawn into vehicles should be recorded in the respective motor vehicles log books.

Contrary to the above requirements, a review of payments for purchase of fuel revealed that fuel valued at K34,804,820 was not entered in fuel registers. In the absence of any record, it was difficult for the audit team to ascertain how the fuel was accounted for.

**(e) Stores Not Accounted For: K12,139,750**

Treasury Instructions 11.7 of 2004 and Section 20.2 of the Local Authorities accounting and Financial Management and Procedures Manual 2003, among other things, requires that receipts and issues of all stores be recorded in the stores ledger for proper accountability

Contrary to the above requirement, an examination of payment vouchers, invoices and stores ledgers disclosed that stores items valued at K12,139,750 purchased from different suppliers by the Urban Education Office and Health sector during the years under review were not recorded in stores ledgers. In addition the delivery notes for the stores items purchased were not presented for audit review. As a result, it was difficult to confirm whether goods purchased were delivered and properly utilized by the Urban Education Office and Health sector respectively.

**(f) Non-Recording of Donor Funds and purpose of funding by the Council**

The Local Authorities Accounting and Financial Management Procedures Manual chapter 14.2 of 2003, requires that all Local Authorities shall ascertain the donor, purpose and the conditions of the funding and issue a general receipt against the funds on the date of receipt and if received by direct lodgment into the bank account, an official receipt shall be issued upon receipt of a deposit slip supplied by the depositor or a bank statement.

Contrary to the above requirement, a review of the accounting records disclosed that the Council did not indicate donors, purpose and the



conditions of funding for each and every donor. The bank statement for DDF during the year under review showed deposits amounting to K91,409,076.76 while the cash book showed receipts totaling K11,669,809.00 giving a difference of K79,392, 267.76. This resulted in the no proof source and receipt by the Council of donor funds amounting to K79,392,267.76.

**(g) Payment Vouchers with No Supporting documents: K11,472,655**

The Local Authorities Accounting and Financial Management procedures Manual 8.3.3 (e) of 2003, require that in every payment cycle all the supporting documents should be firmly attached to the payment voucher to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instructions 5.9(a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

Contrary to the above requirement, an examination of payment vouchers disclosed that payments totaling K11,472,655 for DDF had no supporting documentation such as loose minutes, receipts, and delivery notes as at the time of audit. In the absence of the supporting documents it was difficult to ascertain whether the payments were a proper charge to public funds.

**(h) No Bank Reconciliation**

Local Authorities Accounting and Financial Management Procedures Manual (2003), Chapter 14.5 (a) and 14.6 (1) requires that the Council should be balancing off the cashbook at the end of the month and also that the bank account should be reconciled with a cashbook balance every month.

Contrary to the requirement the Council did not prepare bank reconciliations statements for the DDF account for the year 2016/2017, this resulted into differences in balances between the cashbook and the bank statement. The bank statement as at 30/06/2017 indicated a balance of K38,339.15 while the cashbook indicated an overdraft of K19,681,863.61.

**(i) Payment Vouchers not presented for audit inspection: K60,223,309**

Public Audit Act, Section 7 (1) (a) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access to all documents and books of accounts, among other things, that are subject to audit for his examination.

Contrary to the above requirement, an examination of payment vouchers against the bank statements revealed that payment vouchers amounting to K60,223,309 were not presented for inspection. It was therefore

difficult to ascertain the validity and propriety of the expenditure incurred.

**(j) Payment made to Contractors without certification by the PIC/ADC**

Constituency Development Funds Guidelines requires that when a project has reached a stage which requires the contractor to be paid his dues, the Project Implementation Committee (PIC) or the ADC shall make a recommendation or issue a certificate that the project has been implemented efficaciously, after that the technical personnel from the Council needs to verify if what the PIC has certified is true and later the payment should be effected.

Contrary to the above requirement, it was observed that payments totaling K5,733,600.00 were made to contractors without certification by the PIC/ADC but were only supported by copies of funds authorisation by the Member of Parliament. In addition, these projects were not verified by the Council officials as per the standing requirement.

**(k) CDF Payment Vouchers Not Presented For Audit Inspection: K24,450,256.00**

Public Audit Act, Section 7 (1) (a) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access to all documents and books of accounts, among other things, that are subject to audit for his examination.

Contrary to the above requirement, an examination of payment vouchers for CDF revealed that payment vouchers totaling K24,450,256.00 passed for payment during the year under review were not presented for inspection. It was therefore, difficult to ascertain the validity and propriety of the expenditure incurred.

**NSANJE DISTRICT COUNCIL**

52. An audit of Nsanje District Council for the year ended 30th June, 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Payment Vouchers Not Presented For Audit-K94,451,608.43**

Treasury Instruction 5.9 (a) states that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance, Economic Planning and Development and National Audit office staff.

An examination of expenditure returns and payment vouchers disclosed that vouchers amounting to K94,451,608.43 were not presented for audit.

Consequently, the propriety of the expenditure could not be established or determined.

**(b) Payments Without Supporting Documents: K85,089,587.15**

Treasury Instructions No. 5.15.1 States that controlling officers shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible.

Treasury Instruction 5.16.1 requires every Controlling Officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

An examination of payment vouchers revealed that payment vouchers amounting to K85,089,587.15 were submitted for audit without appropriate supporting documents.

**(c) Procurement Without Evidence of IPC Evaluation Minutes: K4,323,423.12**

Regulation number 2.1.9 (c) of Local Government Accounting and Financial Regulation states that the IPC will be responsible for all procurement in the Local Authority. The committee will handle requests for quotations, tender advertisement and evaluation of both quotations and tenders.

However, it was observed that transaction totaling K4,323,423.12 were without evidence of evaluation minutes by IPC. As such value for money for the procurements could not be ascertained.

**(d) Payments Without Evidence of Sourcing At Least Three Quotations: K55,613,432.47**

Section 35(1) of the Public Procurement Act requires that purchase of goods and services to be done after sourcing at least three quotations from a pre-qualified list of suppliers of goods and services.

Contrary to the requirement, an inspection of payment vouchers disclosed that the payments amounting to K55,613,432.47 to suppliers had no evidence of using at least three quotations.

**(e) Fuel Not Recorded in The Fuel Ledger; K28,655,773.23**

Regulation Number 20.3 of Local Government Accounting and Financial Regulation states that Local Authorities shall maintain a stores ledger that shall record all stores movements and values.

However, inspection of payment vouchers disclosed that fuel worth K28,655,773.23 was not recorded in the fuel ledger. It was therefore, difficult to ascertain how the fuel was used and accounted for.

**(f) Stores Not Accounted For: K34,047,824.92**

Treasury Instruction number 11.7.1.2 states that where consumable stores are received in bulk for subsequent issue on small lots, transactions will be entered in a Consumable Stores Ledger.

An examination of payment vouchers and verification of the actual stock of stores and the ledger at the project sites disclosed that K34,047,824.92 worth of stores was not accounted for.

**(g) Payment Through Receipted Vouchers: K16,287,857.34**

Article 9 under Part B of circular letter with Reference Number 15/15/7 of 19th November, 2013 addressed to all Controlling Officers and Heads of Departments and Subvented Organisations, the Chief Secretary directed that no cheques shall be drawn in the name of an officer to pay staff or indeed other purposes unless a special clearance has been obtained from the Secretary to the Treasury upon giving valid reasons justifying the case by the Controlling Officer.

An inspection of payments records revealed that the office made payments amounting to K16,517,857.34 in the name of officers on behalf of recipients without obtaining prior authority from the Secretary to the Treasury.

**(h) Fuel Not Signed For In Ledger; K5,919,167.30**

Treasury Instruction No11.7.1.3 states that Consumable stores of a durable nature but of small intrinsic value must be subject to reasonable control to ensure that these are not pilfered or wasted.

An inspection of payment vouchers and the fuel ledger disclosed that K5,919,167.30 worth of fuel was purchased and drawn without being signed for by recipients in the ledger and could not be traced in the log books. It was therefore difficult to ascertain the accountability of fuel in absence of disposal records.

**(i) Failure By Primary Schools To Submit Budgets For SIP Activities: K43,061,021.00**

Stage 1 (step 2) of Primary School Improvement Program Financial Management Guidelines requires Schools to complete SIP/SIG Activity Budgets and submit the finalized SIP to the DEM before accessing SIG funds.

However, examination of payment vouchers for School Improvement Grant (SIG) as per files presented for audit, out of 105 Schools only 9

Schools submitted their Activity Budgets. This represents 8.6% compliance rate with Section 4 of the guidelines. This means that grants amounting to K43,061,021.00 were paid without following the procedures.

**(j) Construction Works Without Contracts: K33,050,795.51**

CDF Guidelines 16:1 states all contractors shall sign a contract with the LA which will describe the work to be done, standards (designs, drawings and similar specifications) and stages at which payments will be made, and where applicable an agreed 10% retention fee plan.

An examination of payment vouchers for construction works worth K33,050,795.51 disclosed that they were without any contracts and as such, the audit could not get the details of the terms and conditions attached to such contracts.

**(k) Contractors Charging VAT But Without VAT Certificate: K38,671,262.51**

Value Added Tax (VAT) regulation requires a trader to register with Malawi Revenue Authority before he is authorized to administer VAT.

An examination payment vouchers disclosed that payments amounting to K38,671,262.51 were paid VAT inclusive, to suppliers who without evidence of registration to administer VAT.

**(l) Contractors Without NICC Certificate: K26,466,104.30**

Section 14 of Public Procurement Act 2003 states that In order to be eligible to be awarded a procurement contract, a bidder must be registered, depending upon the nature of the contract, with the Registrar of Companies, or with the National Construction Industry Council of Malawi, or such other entity as may be prescribed by regulations, but the sole absence of an application for entry in the registry or classification system is not ground for exclusion of a bidder from participation in procurement proceedings.

However, it was observed that National Construction Industry Council (NCIC) certificates for contracts amounting to K26,466,104.30 were not available. In the absence of NCIC certificates, it was difficult to ascertain whether the contractors were certified to construction works in the country.

**(m) Allowances Paid Contrary To UNICEF Guidelines-K385,000.00**

Article 3.7 of District Level Guidelines for Managing UNICEF Funds states that allowances shall only be payable for work outside the duty station (40km radius) and for a minimum of 8 hours as directed by circular DPSM/ALL/01/08.

Examination of Payment vouchers disclosed that Subsistence and Lunch allowances amounting to K385,000.00 were paid for scheduled activities which did not qualify for the application of allowances.

**(n) Allowances Paid Without Evidence of Attendance: K38,111,870**

Article 3.2 & 3.3 of District Level Guidelines for Managing UNICEF Funds states that allowances' sheets must indicate details of the activity, venue, dates, number days paid for, amount paid and signatures of the payees, including designation / role; and allowances shall only be paid against a duly signed attendance registers showing participant's full name, role, contact details (phone number) and dates attended.

Inspection of payment vouchers disclosed that K38,111,870.00 allowances were paid without evidence of attendance.

**NTCHEU DISTRICT COUNCIL**

53. An audit inspection of the financial and other information for Ntcheu District Council for the year ended 30th June 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls and other related gaps as highlighted in the following observations:

**(a) Failure To Collect Revenue From Shops In The New Market: K3,840,000.00**

Local Authorities Accounting and Financial Management Procedures Manual Chapter 1.3.3(j) empowers the District Commissioners and Chief Executive Officers to ensure that any tax, duty, fee, levy or other charge imposed by legislation for which the Local Authority is responsible is collected promptly and to the fullest extent.

Government constructed a bus depot for the Council. The bus depot was also provided with shops to help the Council increase its revenue base. The Council advertised for the spaces and many willing businesses applied for the same and were awarded with contracts. Despite entering into these agreements with vendors, the Council has not collected the necessary rent from the vendors. This has negatively impacted on the revenue base of the Council. The total amount not collected is K3,840,000.00

**(b) Failure To Perform Bank Reconciliations For Local Revenue**

Good accounting practice as enshrined in the Local Authorities Manual (Section 5.7) requires every Council to prepare bank reconciliations on a monthly basis. The Manual further states the purposes of bank reconciliations as follows:

- To analyse the difference between the cash book and the bank statement balances.

- To detect and correct errors made by the bank or cash office.
- To detect possible fraudulent withdrawals from the bank.
- To recognize or identify appropriate expenditures or receipts made directly by the bank.

Contrary to this, Ntcheu District Council failed to furnish the audit team with bank reconciliations for local revenue for the period under review.

## **CONSTITUENCY AND DISTRICT DEVELOPMENT FUNDS**

### **(c) Payment Not in Tandem With Service Provided: K537,600.00**

Local Authorities Accounting and Financial Management Procedures Manual Section 1.3.3(e) empowers the District Commissioners and Chief Executive Officers to ensure that all expenditure is properly authorized and applied to the specific purposes for which it is appropriated and Section 1.3.3(h) also states that all expenditures are incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste.

An examination of the cash book for Ntcheu District Assembly for the period under review showed that on 18 November 2016, Ntcheu District Council paid Snakes and Ladders the sum of K537,600 for the supply of Concrete Rings for Kamwendo Bridge through Cheque number 062295. However, a visit to the project site revealed that the bridge was constructed using timber. No explanation was provided by the Council as to whether the concrete rings were really bought and where they were used.

### **(d) Cement Not Accounted For: K1,500,000.00**

Treasury Instruction 5.9 (b), as read together with Treasury Instruction 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

An examination of payment vouchers and cashbook showed that on 16 March 2017, the assembly procured 200 bags of cement from Narawal Investment worth K1,500,000.00 for the construction of Chitungu School Block. Delivery Note number 268 showed that the whole 200 bags of cement were delivered on 16 March 2017. However, a visit to the project site revealed that construction of the School Block stopped at foundation level.

Interview with the school committee members revealed that the project started and stopped in April, 2017 and only 40 bags of cement were delivered at the project site.

**(e) Poor Workmanship/ Lack of Value for Money: K4,088,000.00**

Treasury Instruction 2.6.1(h) requires that all expenditures incurred should be with regard to economy, efficiency and effectiveness and the avoidance of waste.

An examination of a cashbook and payment vouchers for Ntcheu District Council showed that Ntcheu District Council spent over K4 Million from CDF account for the maintenance of Kamwendo 1 and 2 bridges. However, the quality of the bridges does not tally with the expenditure made in the following way:

- Although the Council bought 160 bags of cement for the bridges, the quality of concrete part of the bridge does not reflect that. The concrete is not strong enough to the extent that it is already damaged barely 8 months after construction.
- Pillars that were erected have started falling off. The remaining pillars have cracks where they join the abutments.

**(f) Dubious Payment to R. Loga: K770,000.00**

Chapter 17 of Constituency Development Fund Guidelines stipulates that the Controlling Officer is required to maintain a proper accounting system that produces accounts that are fairly stated as well as maintain a system of internal controls to safeguard public resources. To achieve this, the Controlling Officer is required, among other things, to ensure that:

- The expenditure is valid and properly authorized according to the authority mandates
- The expenditure is charged to the relevant allocation appropriated by the National Assembly

An examination of CDF Payment vouchers and a Cashbook showed that Ntcheu District Council paid a total of K770,000.00 to R. Loga for the transportation of 7 trips of sand to Chikhamwazi Dispensary Project which is a DDF project. Interviewing the Chikhamwazi Project Committee, the Treasurer to the Committee denied to have ever hired R. Loga or any other person to transport sand to the project. The Community brought sand to the project themselves and the Member of Parliament for the Constituency brought 2 trips as his contribution to the project.

**(g) Awarding of Contracts to unqualified contractors; Substandard Work**

Chapter 14 of CDF Guidelines stipulates that as the Controlling Officer, The District Commissioner is required to put in place policies and procedures that ensures that Procurement under CDF is done from bidders who are qualified in terms of requisite registration and capacity to deliver the required goods or services All transactions are made with



due regard to open competition and fairness and avoidance of conflict of interest and corruption

An examination of payment vouchers, cashbook and contracts showed that Ntcheu District Council awarded contracts to an unqualified contractor for the construction and roofing of Bwanje and Kasinje School Block. Further investigations revealed that one of the contractors, Patricia Nyongani is a Primary School Teacher at one of the Schools in the Constituency.

As a result of this, it is not a surprise that the work at these schools is unsatisfactory (poor workmanship). For example, joining of iron sheets at Bwanje School was not done well and construction of the school block at Kasinje is as if cement was not used. The wall is not strong enough. Additionally, the building is a health hazard to the pupils as it can fall any time.

#### **OTHER RECURRENT TRANSACTIONS: DISTRICT HEALTH OFFICE**

##### **(h) Bank Reconciliation Statements Not Provided for Audit Inspection**

Good accounting practice as enshrined in the Local Authorities Manual (Section 5.7) requires every Council to prepare bank reconciliations on a monthly basis. The Manual further states the purposes of bank reconciliations as follows:

- To analyse the difference between the cash book and the bank statement balances.
- To detect and correct errors made by the bank or cash office.
- To detect possible fraudulent withdrawals from the bank.
- To recognise or identify appropriate expenditures or receipts made directly by the bank.

Contrary to this, Ntcheu District Health Office failed to furnish the audit team with bank reconciliation statements.

#### **NTCHISI DISTRICT COUNCIL**

54. An audit inspection of the financial and other information for Ntchisi District Council for the year ended 30th June 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls and other related gaps as highlighted in the following observations:

##### **(a) Revenue Collections Not Accounted for: K2,755,800.00**

Local Authorities Accounting and Financial Management Procedures Manual paragraph 5.2.1, states that all revenue collectors shall remit

revenues collected to the central office cashier. The cashier shall issue an official receipt to the revenue collectors in respect of the cash or bank deposit slips (where revenue is banked directly by the revenue collectors) received. The cashier shall make arrangements for banking of the revenue received intact. The cashier shall record the revenues in the Revenue Cash Book (RCB).

It was noted during the audit that revenue collection amounting to K2,755,800.00 was not accounted for since the audit team was not provide with bank deposit slip as evidence that the monies were indeed banked and no payment voucher was provided as evidence that the cash was used at source.

**(b) Failure to Prepare Bank Reconciliation**

Good accounting practice as enshrined in the Local Authorities Manual (Section 5.7) requires every Council to prepare bank reconciliations on a monthly basis. The Manual further states the purposes of bank reconciliations as follows:

- To analyze the difference between the cash book and the bank statement balances.
- To detect and correct errors made by the bank or cash office.
- To detect possible fraudulent withdrawals from the bank.
- To recognize or identify appropriate expenditures or receipts made directly by the bank.

Contrary to this, Ntchisi District Council failed to furnish the audit team with bank reconciliations for the following accounts:

**Table 48: Failure to Prepare Bank Reconciliation:**

Account name	Bank Name	Account number
Ntchisi DC OPERATIONS	Current Account	1220000003364
Ntchisi DC IFMIS	CCA Current Account	14313109

**(c) Payment Vouchers Without Supporting Documents: K6,292,338.80**

Treasury instruction 5.16.1 requires every controlling officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition treasury Instruction 5.9(a), states that controlling officers shall ensure proper accounting records are maintained to support all financial and related transaction.

Contrary to this requirement, it was observed that payment vouchers totaling to K6,292,338.80 had no supporting documents attached. In the absence of the supporting documents, it was difficult for the inspecting audit team to ascertain whether the expenditure incurred was accurate

and proper charge to the public funds: Below is a summary of the payments:

**Table 49: Payment Vouchers Without Supporting Documents**

<u>Cost Centre</u>	<u>Amount (K)</u>
Assembly-ORT	3,688,403.80
Education-ORT	2,603,935.00
<b>TOTAL</b>	<b><u>6,292,338.80</u></b>

**(d) Purchases Made Without Evidence of Obtaining At Three Quotations: K6,676,927.36**

Section 35 (1) of the Public Procurement Act states that a procuring entity shall request quotations from at least three bidders and request for quotations shall contain a clear statement of the requirements of the procuring entity as to quality, quantity, terms and time of delivery as well as any other special requirements.

Contrary to this requirement, the audit team discovered that the Council procured goods worth K6,676,927.36 without evidence of obtaining at least three quotations. In the absence of proper quotations value for money would not be achieved. Below is a summary of the transactions:

**Table 50: Purchases Made Without Evidence of Obtaining Three Quotations**

<u>Cost Centre</u>	<u>Amount (K)</u>
Constituency Development Fund	5,601,650.00
Healthy Sector	1,075,277.35
<b>Total</b>	<b><u>6,676,927.36</u></b>

**(e) Stores Not Accounted For: K26,624,295.56**

Treasury Instructions 11.7, among other things, requires that a stores ledger be opened and maintained for purposes of recording all receipts and issues made thereof.

Contrary to the above requirement, it was observed that stores totaling K26,624,295.56 purchased during the period under review had no evidence to show that the purchased items were recorded in the stores ledger. In the absence of the stores ledger, it was difficult to ascertain how the purchased stores were accounted for. Details are summarized below:

**Table 51: Stores Not Accounted For**

<u>Cost Centre</u>	<u>Amount (K)</u>
Constituency Development Fund	22,804,142.24
Education	3,820,153.32
<b>Total</b>	<b><u>26,624,295.56</u></b>

**(f) District Development Fund Payment Vouchers Not Produced For Audit Inspection: K28,130,570.00**

Public Audit Act 7. (1) (a) mandates the Auditor General and every person authorized by him to have full access at all reasonable time to all documents, books and accounts, public funds, public securities, Government contracts and books and accounts relating thereto and subject to audit, and to any place where they are kept.

A review of financial records for the Council revealed that some payment vouchers for District Development Fund amounting to K28,130,570.00 were not presented for audit inspection which made it difficult to ascertain the accountability of the funds.

**(g) Fuel Not Accounted For: K5,809,625.00**

Treasury Instruction 5.9 (b), as read together with Treasury Instruction 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

Contrary to the above requirement it was observed that fuel totaling K5,809,625.00 purchased during the period under review had no evidence to show that the purchased items were recorded in the fuel register and vehicle log books.

**Table 52: Fuel Not Accounted For**

<u>Cost Centre</u>	<u>Amount (K)</u>
District Development Fund	1,969,625.00
Education	3,840,000.00
<b>Total</b>	<b><u>5,809,625.00</u></b>

**PHALOMBE DISTRICT COUNCIL**

55. An audit inspection of the financial and other information for Phalombe District Council for the year ended June 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Failure to Account for Construction Materials: K4,595,000.00**

Paragraph 14 (5) of the Revised Constituency Development Fund (CDF) Guidelines 2014 requires the District Commissioner, as a Controlling Officer, to put in place policies and procedures that ensure there are adequate procedures for stores management for the goods procured. In addition, Treasury Instruction 11.7.1.5 states that a stores ledger for the purpose of recording the receipts and issues of all stores will be kept for each store.

An examination of payment vouchers, delivery notes and the stores ledger for the period under review disclosed that construction materials amounting to K4,595,000.00 purchased for various CDF projects were not accounted for since management failed to produce receipt and disposal records of the purchased materials. It was therefore, difficult for the audit team to ascertain their accountability.

**(b) Payments Not Supported By Works Completion Certificates: K24,848,031.40**

Paragraph 16 (3) and (4) of the Revised Constituency Development Fund (CDF) Guidelines 2014 requires the Director of Public Works to certify all CDF funded projects as complete and prepare a work completion certificate before payment is effected to the contractor.

It was however noted that the Council made payments worthy K24,848,031.40 to several contractors who undertook various projects under Constituency Development Fund but were not supported by works completion certificates prepared by the Director of Public Works. It was therefore, difficult for the audit team to establish whether the contractors had satisfactorily carried out the works according to the agreed quality standards and whether the projects were indeed supervised and certified as complete by the Director of Public Works.

**(c) Building Materials Not Accounted For: K2,880,900.00**

Treasury Instruction 5.26.1 states that payment for goods and services received shall be effected upon verification and confirmation that goods were received or that those services were rendered. Payment shall be made where, a copy of the local purchase order, an invoice and goods received note are attached to the payment voucher.

To the contrary, the audit exercise conducted established that during the period under review, building materials valued at K2,880,900.00 could not be accounted for since they were not traceable either physically or through stores records. It was observed that among the materials procured during the period was two hundred and fifty (250) bags of cement for Namahiya protection wall project but upon assessing the size of the project and interviews with members of the Area Development Committee (ADC) and other members of the community around the project area, it was revealed that the project consumed only sixty (60) bags of cement leaving one hundred and ninety (190) not accounted for. It was further noted that on maintenance of Tcheleni 1, 2 and 3 bridges, where the works involved replacement of some beams, running boards and chassis boards, only three (3) out of sixteen (16) beams procured were used to replace the old ones giving a difference of thirteen (13) which could not be traced.

**(d) Procurement of CDF Materials Without Evidence of IPC Approval: K54,901,733.40**

Section 8 of Public Procurement Act 2003 among other things requires all procuring entities to procure goods and services through the scrutiny and approval of the internal Procurement Committee (IPC).

An examination of payment vouchers and other procurement records for the period between August, 2016 and June, 2017 revealed that procurement of Constituency Development Fund (CDF) projects' materials valued at K54,901,733.40 was made without evidence that the IPC approval was sought. Further enquiries disclosed that during the period under review procurement of CDF materials was largely handled by the respective Member of Parliament (MP) and his/her team and the records such as quotations, invoices and delivery notes would be brought to the Council for ratification and payment. It was therefore, difficult for auditors to ascertain if value for money was achieved following the Council's failure to comply with procurement regulations.

**(e) Certification And Payment For Works Not Yet Completed: K6,276,834.48**

Treasury Instruction 2.6.1(h) requires that all expenditures incurred should be with regard to economy, efficiency and effectiveness and the avoidance of waste.

An examination of payment vouchers, works completion certificates and physical verifications of projects financed under District Development Fund (DDF) implemented during the 2016/17 financial year disclosed that funds amounting to K6,276,834.48 were paid to various contractors for works which the Council wrongly certified as complete but were actually not yet completed as at the time of the audit. The projects under review included Migowi Police staff house and Mthupwa Bridge and that the funds paid were in respect of full labour charges as established in the contract agreements. It was therefore difficult for auditors to ascertain whether the supervision of the projects were thoroughly done and if at all the project funds were recovered.

**(f) Fuel Not Accounted for: K18,747,907.18**

Treasury Instructions 5.9 (b) states that all transactions shall be recorded in a primary Government record or ledger, either within the records held by a Ministry with the approval of the Secretary to the Treasury and summarized in the ledgers held by the Ministry of Finance, Economic Planning and Development, or in a record maintained by the Ministry of Finance, Economic Planning and Development.

A review of fuel expenses for the Council revealed that management failed to account fuel amounting to K18,747,907.18 since receipt and

disposal records such as fuel register were not provided. As such, it was therefore difficult for the inspecting auditors to ascertain accountability of fuel usage. A summary below has details:

**Table 53: Fuel Not Accounted For**

<u>Sector</u>	<u>Amount (K)</u>
Local Development Fund	7,658,373.90
General Resource fund and other sectors' ORT	8,026,752.64
District Agriculture Development Office ORT	1,532,185.64
District Education Manager's Office ORT	705,305.00
District Health Office ORT	825,290.00
<b>Total</b>	<b><u>18,747,907.18</u></b>

**(g) Payment Vouchers Without Supporting Documents: K2,511,652.55**

Treasury Instruction 5.16.1 requires every Controlling Officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

An inspection of payment vouchers at the Council disclosed that payment vouchers amounting to K2,511,652.55 were not supported by adequate supporting documents attached. In the absence of the necessary supporting documents, it was difficult to ascertain the genuineness of the payments made.

**RUMPHI DISTRICT COUNCIL**

56. An audit inspection of the financial and other information for Rumphi District Council for the year ended June 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Fuel Not Accounted For: K27,291,989.00**

Treasury Instruction (2004) No. 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions will be entered in a Consumable Stores Ledger. It further states that consumable stores must be subject to reasonable control to ensure that they are not pilfered or wasted.

An inspection of payment vouchers and fuel registers revealed that fuel worth K27,291,989.00 was not accounted for since management failed to produce fuel registers, malswitch receipts and logbooks to ascertain the receipts and disposal of fuel in question. This amount comprised fuel

worth K24,676,739.00 and K2,615,250.00 paid from ORT and Social Cash Transfer respectively. In the absence of records, the audit team could not ascertain how the fuel was used.

**(b) Stores Items Not Accounted for: K1,278,734**

Treasury Instructions 11.6.1.3 states that where consumable stores are received in bulk for subsequent issues in small lots, the transactions must be recorded in the Stores consumable ledger for accountability and transparency.

An inspection of payment vouchers, stores ledger and other related documents for Council Headquarters revealed that management failed to produce accountability records for the purchased stores amounting to K1,278,734.00. As a result, the accountability of the stores could not be ascertained by the inspecting auditors.

**(c) Payment Vouchers Not Presented For Audit: K501,016,379.00**

The Public Audit Act Section 7 (I) (a) requires that the Auditor General and any officer assigned by him should be given sight and access to the information he deems fit for the discharge of his oversight duties.

An inspection of IFMIS cash book for Rumphu District Council revealed that payment vouchers amounting to K501,016,379.00 were not produced for audit. As a result, the audit team could not ascertain how this money was used. A summary per account is as per table below:

**Table 54: Payment Vouchers Not Presented for Audit:**

<u>ACCOUNT</u>	<u>AMOUNT (K)</u>
ORT	17,633,650.00
Social Cash Transfer	18,592,750.00
LDF	464,789,979.00
<b>TOTAL</b>	<b><u>501,016,379.00</u></b>

**(d) Subsistence Allowances Paid Without Attaching "To Leave Duty Station Forms": K6,995,620**

Section 10 (h) and (i) of the Public Finance Management Act (2003) requires each Controlling Officer to ensure that all expenditure is incurred with due regard to economy, efficiency and effectiveness and avoidance of waste and that all necessary precautions are taken to safeguard public resources. Furthermore, Local Authorities Accounting and Financial Management Procedures Manual require Authority to Leave Duty Station Forms to be raised before payment vouchers are processed for payment.

An examination of payment vouchers for Council Headquarters revealed that payment vouchers for subsistence allowances totaling K6,995,620



were submitted for audit review without attaching Authority To Leave Duty Station Forms'. In the absence of the supporting documents, the audit team was not able to ascertain whether the payments were a proper charge against public funds.

**(e) Payments Without Evidence of Sourcing At Least Three Quotations: K1,579,081**

Section 35 (1) of the Public Procurement Act (2003), states that in request for quotations, a procuring entity shall request quotations from at least three bidders.

An inspection of payment vouchers revealed that goods and services worth K1,579,081 were purchased without evidence of sourcing at least three quotations. In the absence of quotations value for money on the procurements could not be achieved.

**(f) Revenue Collected But Not Accounted For: K9,336,259.00**

Treasury Instruction 5.8.2 of 2013 states that cash and cheques received shall promptly be brought on charge using General Receipt Books issued by the Government Printer.

During the audit of revenue it was observed that revenue amounting to K9,336,259.00 was collected from clients and General Receipts were issued and stamped paid. However, pay in vouchers for revenue were not raised and no bank deposit slips were attached. As such it was difficult for the audit team to verify as to whether this revenue was banked. In the absence of these documents, it was difficult to ascertain how the revenue collections were accounted for.

**(g) CDF projects Without Evidence of Existence: K23,047,450.00**

Treasury Instruction 2.6.1(h) requires that all expenditures incurred should be with regard to economy, efficiency and effectiveness and the avoidance of waste.

An inspection of payment vouchers and other related documents revealed that expenditure worth K23,047,450.00 was incurred on projects which could not be identified or traced.; The audit team could not verify how this money was used.

**(h) Misallocations Of Expenditure From CDF To Other Budget Lines: K5,880,551.47**

Treasury Instruction (2004) No. 4.14.1 states that specific approval is required before any allocations can be vired or transferred between a programme/item within the same Vote. The Section further states that if the Controlling Officer is satisfied that the provision against a programme/item will be inadequate, he may submit an application to the Secretary to the Treasury in writing to vire or transfer funds between a programme/item within the same Vote.

An examination of payment vouchers and expenditure cash books, for the period under review revealed that expenditure amounting, to K5,880,551.47 was spent on budget lines other than those it was budgeted for.

## **SALIMA DISTRICT COUNCIL**

57. An audit of Salima District Council for the year ended 30th June, 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted the following observations:

### **(a) Failure To Produce financial records for Audit: K452,441,378.19**

Public Audit Act, Section 7 (1) (a) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access to all documents and books of accounts, among other things, that are subject to audit for his examination.

During the year under review the Council failed to provide payments vouchers together with the cashbooks for the Council Main Revenue Account. Further to that, there were no financial reports to monitor the performance of the Council in terms of its expenditures against the budgeted figures. The total expenditure for the year for which financial records were not provided for audit was K374,183,843.00.

The Council also failed to produce payment vouchers for audit for the other cost centres, totalling K78,257,535.19 as follows:

**Table 55: Failure To Produce financial records for Audit**

<u>Cost Centre</u>	<u>Amount (MK)</u>
Council Revenue Account	374,183,843.00
Local Development Fund	9,736,918.50
Constituency Development Fund	42,586,154.20
Health Sector	25,934,462.49
<b>Total</b>	<b><u>452,441,378.19</u></b>

### **(b) Procurement Without Evidence of IPC Approval: K76,953,047.68**

Section 8 of the public procurement act 2003 among other things requires all procuring entities to procure goods and services through the scrutiny and approval of the internal Procurement Committee (IPC).

A review of procurement records for the period under review showed that a total of K76,953,047.68 was incurred on procurement of goods and services without evidence of approval by the IPC. In most cases the minutes were signed by members who did not form the quorum which brought about doubts as to whether the IPC was indeed meeting. Details are in the table below;

**Table 56: Procurement Without Evidence of IPC Approval**

<u>Cost Centre</u>	<u>Amount (MK)</u>
Local Development Fund	30,586,984.95
Constituency Development Fund	44,281,593.44
Health Sector	2,084,469.29
<b>Total</b>	<b><u>76,953,047.68</u></b>

**(c) Payment Vouchers Without Supporting Documents: K23,239,508.34**

Treasury Instruction 5.16.1 requires every Controlling Officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

An examination of payments revealed that payment vouchers amounting to K23,239,508.34 were submitted for audit without appropriate supporting documents. In the circumstance the validity of the expenditures could not be established. The table below has the details.

**Table 57: Payment Vouchers Without Supporting Documents**

<u>Cost Centre</u>	<u>Amount (MK)</u>
Agriculture Sector	6, 018,228.34
Education Sector	5,521,400.00
Health Sector	11,699,880.00
<b>Total</b>	<b><u>23,239,508.34</u></b>

**(d) Fuel Not Accounted For: K52,354,422.51**

Treasury Instruction number 5.9 (b) requires Controlling Officers to ensure that all transactions are recorded in a primary government record or ledger. Therefore, it is imperative that fuel purchased should be recorded in a fuel register before being issued to subsequent users for accountability and transparency.

An examinations of payments in respect of purchases of fuel disclosed that fuel worth K52,354,422.51 was not accounted for through the fuel register. In some cases, the payments were either without the fuel pump receipts and/or no liquidation receipts. Without these documents it was difficult for the auditors to ascertain whether the fuel purchased was put into official use. Details are in the Table below:

**Table 58: Fuel not accounted For**

<u>Cost Centre</u>	<u>Amount (MK)</u>
Local Development Fund	8,309,698.00
Agriculture Sector	4,963,019.51
Education Sector	8,293,705.00
Constituency Development Fund	4,028,000.00
Health Sector	26,760,000.00
<b>Total</b>	<b><u>52,354,422.51</u></b>

**(e) Stores Not Accounted For: K20,083,206.84**

Treasury Instructions 11.7, among other things, requires that receipts and issues of all stores be recorded in the stores ledger for proper accountability.

A review of stores records revealed that stores items valued at K20,083,206.84 purchased during the period under review were not recorded in the stores ledger. In the absence of such record, accountability of stores items purchased could not be ascertained. Details are in the Table below;

**Table 59: Stores Not Accounted For**

<u>Account Name</u>	<u>Amount (MK)</u>
Agriculture Sector	1,044,252.49
Education Sector	4,442,488.00
Constituency Development Fund	14,596,466.35
<b>Total</b>	<b><u>20,083,206.84</u></b>

**(f) Subsistence Allowances Paid Within Duty Station: K4,051,000.00**

It is a Government requirement that night allowance shall be given to officers on duty outside their duty station. However, during the audit for 2016/2017 financial year it was discovered that payments worth K4,051,000.00 were paid to officers who did not carry out their duties outside their working station. Details are shown below;

**Table 60: Subsistence allowances paid within duty station**

<u>Account Name</u>	<u>Amount (MK)</u>
Education Sector	3,640,000.00
Agriculture Sector	411,000.00
<b>Total</b>	<b><u>4,051,000.00</u></b>

**(g) Payment Made Without Evidence of Receipted Vouchers: K1,845,913.18**

Treasury instructions (2004) Section 5.26 stipulates that all payments made should be signed by beneficiaries and all signed vouchers should be returned to cash office for receipt.

An examination of payment vouchers for the Agriculture sector, showed that payment vouchers amounting to K1,845,913.18 in respect of subsistence allowances had no liquidation sheets for signatures of beneficiaries as evidence of receipt. As such it was difficult for auditors to establish how the amount was accounted for.

**(h) Interest Charges To Unsettled Debt: K1,068,125.00**

Treasury Instructions 5.6.13.1 states that Government goods or services must not be supplied or provided on credit unless specifically authorized by the Secretary to Treasury

Contrary to this directive, the Council accumulated debt from a supplier amounting to K2,831,875.00 for Salima District Hospital which took some time to settle. The supplier engaged the services of the Sheriff who threatened to impound one of the ambulances through a lawsuit. Due to non-settlement, the debt accumulated some interest and penalties from the original amount of K2,831,875.00 to K3,900,000.00 attracting an additional amount of K1,068,125.00. Details are in the Table below;

**Table 61: Interest charges to unsettled debt**

<u>Date</u>	<u>Chq No</u>	<u>Payee</u>	<u>Detail</u>	<u>Amount (MK)</u>
05/04/17	020853	Sheriff of Malawi	Settlement of food stuffs	1,900,000.00
07/06/17	021739	Sheriff of Malawi	Settlement of food stuffs	1,000,000.00
30/06/17	022485	Sheriff of Malawi	Settlement of food stuffs	1,000,000.00
<b>Total paid</b>				<b><u>3,900,000.00</u></b>
Original liability				<u>2,831,875.00</u>
Interests and penalty				<b><u>1,068,125.00</u></b>

**THYOLO DISTRICT COUNCIL**

58. An audit inspection of the financial and other information for Thyolo District Council for the year ended 30th June 2017 was completed on 12 August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Failure To Submit Payment Vouchers For Audit Review: K25,623,802.50**

Public Audit Act, Section 7 (1) (a) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access

to all documents and books of accounts, among other things, that are subject to audit for his examination.

Contrary to the above requirement, Thyolo District Council did not submit payment vouchers worth K25,623,802.50 to the inspecting auditors for their review. In the absence of the payment vouchers it was difficult to confirm the validity of the expenditures.

**(b) Purchases Without Evidence of Sourcing Three Quotations: K6,631,980.62**

Section 35 (1) of Public Procurement Act, 2003 requires all procuring entities to source at least three quotations from bidders when purchasing goods and services where request for quotations (RFQ) method of procurement is chosen so as to buy from the competitive supplier offering better price and good quality goods and services.

Contrary to the requirement, Thyolo District Council procured items worth K6,631,980.62 without evidence of sourcing a minimum of three (3) quotations. In the absence of the required number of quotation, value for money could not be achieved.

**(c) Payments Without Evidence of IPC Approval: K3,694,138.62**

Section 8 (3) of Public Procurement Act, 2003 requires that Internal Procurement Committee (IPC) approves all procurement of goods and services in the procuring entities.

An examination of payment vouchers and Internal Procurement Committee minutes for the period between August, 2016 and May, 2017 revealed that expenditure amounting to K3,694,138.62 was done without evidence of IPC's approval.

**(d) Stores Not Accounted For: K5,585,108.53**

Treasury Instructions 11.6.1.3 states that where consumable stores are received in bulk for subsequent issues in small lots, the transactions must be recorded in the Stores consumable ledger for accountability and transparency.

An inspection of payment vouchers, stores ledger and other related documents for Council Headquarters revealed that management purchased stores amounting to K5,585,108.53 which had no record. As a result, the accountability of the stores could not be ascertained.

**(e) Failure To Honour Obligations: K12,000,000**

Government through The Ministry Of Health Entered into Service Level Agreements (SLAs) with private clinics in areas where Government Health facilities are not available allowing the private clinics to offer services at a small fee to the under privileged Malawians within their

catchment areas. The clinics after offering the services to the local masses, invoice the Council for payment

It was observed during the audit that Thyolo District Council did not pay in full its SLA obligations worth K12 million. Such un-honoured bills may hinder the services these clinics offer to the locals.

## **ZOMBA CITY COUNCIL**

59. An audit of Zomba City Council for the year ended 30th June, 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Non remittance of Pay As You Earn (PAYE) to Malawi revenue Authority: K19,093,239.66**

The Taxation Act of 2006, Section 102 (1) requires that when making payment of, or on account of, any emolument at a rate exceeding an amount established by the Minister of Finance per annum received or accrued in respect of services rendered, whether payable under any contract of employment or service or not, whether paid or payable weekly or monthly or at other intervals, and including any amounts assessable under sections 16, 17 and 18, income tax shall, subject and in accordance with any regulations made by the Minister under section 146, be deductible by the person making the payment and be remitted to Malawi Revenue Authority. The Fourteenth (14th) Schedule of the Act further requires the deducted PAYE to be remitted to MRA within Fourteen (14) days of the end of the month in which it was deducted.

An examination of payment vouchers, payrolls and expenditure returns disclosed that between July, 2016 and June, 2017 the Council did not remit the Pay As You Earn tax amounting to K19,093,239.66 to Malawi Revenue Authority which was duly deducted from its employees contrary to the taxation regulations. Below are the details;

**Table 62: Non Remittance of PAYE to MRA**

<u>MONTH</u>	<u>AMOUNT (K)</u>	<u>CUMULATIVE AMOUNT(K)</u>
April, 2017	6,311,102.57	6,311,102.57
May, 2017	6,387,012.48	12,698,115.05
June, 2017	6,395,124.61	19,093,239.66

**(b) Payment Vouchers Without Supporting Documents: K17,499,193.00**

Treasury Instruction 5.16.1 and Section 5.5.2 of the Local Authorities Accounting and Financial Management Procedures Manual stipulates that payment vouchers must be fully supported by relevant documents such as invoices, memos, and loose minutes among others. In addition, 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, Economic Planning and Development and National Audit Office staff.

An examination of payment vouchers for the period under review revealed that some payment vouchers for Partnership Account totalling K17,499,193.00 were submitted for audit without supporting receipts and invoices. In the absence of the supporting documents it was difficult to ascertain whether the payments were a proper charge against public funds.

**(c) Payment Vouchers Not Produced For Audit: K17,465,662.31**

Public Audit Act, Section 7 (1) (a) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access to all documents and books of accounts, among other things, that are subject to audit for his examination .

An inspection of cash books and payment vouchers for the year ended 30th June, 2017 disclosed that payment vouchers amounting to K17,465,662.31 were not produced for audit. Consequently, the propriety of the expenditure could not be established or determined. Below are the details;

**Table 63: Payment Vouchers Not Produced For Audit**

<b>COST CENTRE</b>	<b>AMOUNT (K)</b>
<del>Secretariate-ORT</del>	<del>8,403,503.60</del>
Partnership	2,583,612.21
LDF	6,478,546.50
<b>Total</b>	<b><u>17,465,662.31</u></b>

**(d) Payments to Maoni Building Contractor for work not done: K51,396,200.00**

Treasury Instruction 2.6.1(h) requires that all expenditures incurred should be with regard to economy, efficiency and effectiveness and the avoidance of waste.

Contract agreement between Zomba City Council and Maoni Building Contractor were reviewed in order to ensure that payment was done according to the contractual agreement. The agreement was that Maoni Building Contractor was to rehabilitate the running surface, of both the 34th and 35th Avenue Roads and upgrading of Matawale Road and drainages according to the quoted BOQ NO. 5 for contract agreements respectively.



In the twist of events, the Contractor only rehabilitated running surfaces of Matawale Road and 34th and 35th Avenue Roads leaving out drainages not done though it was quoted on the BOQ NO. 5 which was also included on the total sum that the Council paid. The Contractor was paid in full. This means that Maoni Building Contractor was overpaid by K51,396,200.00 for drainages which was and still is not done to date. The amounts for the drainages parts are 34th and 35th Avenue (K41,314,000.00) and Matawale Roads (K10,082,200.00) giving a total of K51,396,200.00.

**(e) Substandard Box Culvert in Mpunga Ward: K1,821,000.00**

Treasury Instruction 2.6.1(h) requires that all expenditures incurred should be with regard to economy, efficiency and effectiveness and the avoidance of waste.

The Council contracted IHP Civil engineering to construct the box culverts in Mtiya ward at a contract sum of K1,821,000. The Council certified the work done by the contractor and paid a total contract sum charged.

However, a verification exercise conducted by the audit team revealed that the box culverts were of substandard such that at a lapse of the short period of time after completion, the culverts fell down.

**(f) Substandard Re-gravelling and drainage of 70m road in Sadzi Ward: K1,500,000.00**

Treasury Instruction 2.6.1(h) requires that all expenditures incurred should be with regard to economy, efficiency and effectiveness and the avoidance of waste.

Karim Building Contractors was engaged by the Council to regravell a road and construct drainage of 70m in length in Sadzi ward at a contract price of K1,500,000.00. The Council certified the work and paid the total contract sum in full.

A verification exercise conducted by the audit team revealed that the work done by the contractor was substandard. The contractor used normal loose soil instead of gravel to regravell the road as per the bill of quantities. Refer the pictures on Appendix "AA" for details.

**(g) Re-gravelling and drainage of 11.5 Meters Instead of 70m road in Sadzi Ward: K1,420,500.00**

The sane Treasury Instruction 2.6.1(h) requires that all expenditures incurred should be with regard to economy, efficiency and effectiveness and the avoidance of waste.

The Council engaged Karim Building Contractors to construct a concrete pad in Chirunga ward at a contract sum of K1,420,500.00. The Council certified and paid in full the contract price.

A verification exercise conducted by the audit team revealed that the contractor constructed the concrete pad of 11.5m in length instead of 70m as indicated in the bills of quantities and request for quotations.

## **ZOMBA DISTRICT COUNCIL**

60. An audit of Zomba District Council for the year ended 30th June, 2017 was completed in August, 2017. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Procurements Made From Suppliers not Approved by the ODPP:K14,223,760.87**

Correspondence from ODPP on reference No: ODPP/03/178 dated 11th July, 2016 to Zomba District Council granted authority to the Council to renew the Framework Agreements for a 12 month period to the following suppliers: H &H Hardware, CMOS Electronics, Edpine Health Care and Millie Distributors.

An examination of payment vouchers, however, revealed that payments were made to some suppliers who were not approved by the ODPP. Such procurements amounted to K14,223,760.87.

**(b) Procurements Made Without Evidence of Approval by the IPC: K36,002,640.99**

Constituency Development Guidelines (2014) requires that procurement be done through an Internal Procurement Committee (IPC).

Contrary to the above requirement, an examination of payment vouchers and IPC minutes revealed that payments amounting to K36,002,640.00 were made for procurements without evidence that Internal Procurement Committee approval was sought before effecting payments.

**(c) Payment Vouchers Supported by Photocopied Attachments: K2,704,126.00**

Treasury Instruction N0.5.15.1 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 in such a way that they are easily and readily accessible. Proper accounting records include use of original records to support payments as opposed to photocopies.

Contrary to the above requirement, payments amounting to K2,704,126.00 were Supported by photocopied attachments. Consequently, the propriety of the payments could not be ascertained.

**(d) Payments made for projects without evidence of existence: K10,793,425.15**

Government requires that service be provided (and goods be supplied) before payment is sanctioned.

However, an examination of payment vouchers and a physical verification exercise revealed that payments were made to projects that did not take place. Village leaders and the ADC chairpersons were interviewed and they stated that they had no knowledge of the existence of such projects. Payments in relation to such projects amounted to K10,793,425.15. Details are shown below.

**Table 65: Payments made for projects without evidence of existence**

<u>Date</u>	<u>CHQ</u>	<u>Constituency</u>	<u>Project</u>	<u>Payee</u>	<u>Details</u>	<u>Amount(K)</u>
13/12/16	18701	Zomba Msondole	Matandani Bridge	Rachel Supplies	Building materials	2,543,177.53
13/12/16	18702	Zomba Msondole	Matandani Bridge	MRA	TAX	78,654.47
13/06/17	22295	Zomba Msondole	Matandani Bridge	J.U Kanyinji	Payment of wages	360,000.00
13/06/17	22296	Zomba Msondole	Matandani Bridge	Robert Alli of Materials	Transportation	756,000.00
13/06/17	22297	Zomba Msondole	Matandani Bridge	MRA	Tax	84,000.00
						<b>3,821,832.00</b>
25/01/17	19219	Zomba Msondole	Katambasula Culvet Ring Installation	FMC Suppliers	Materials	420,000.00
19/05/17	22038	Zomba Msondole	Katambasula Culvet Ring Installation	I. Chikwakwa	Transportation of Materials	18,000.00
19/05/17	21999	Zomba Msondole	Katambasula Culvet Ring Installation	Rachel Suppliers	Materials	83,880.00
						<b>521,880.00</b>
21/11/16	18421	Zomba Msondole	Ntondo II Culvet Ring Installation	Mofolo Nambala	Suppliers of Materials	75,319.15
25/01/17	19219	Zomba Msondole	Ntondo II Culvet Ring Installation	FMC Suppliers	Materials	240,000.00
19/05/17	21999	Zomba Msondole	Ntondo II Culvet Ring Installation	Rachel Supplies	Materials	41,940.00

19/05/17	22038	Zomba Msondole	Ntondo II Culvet Ring Installation	I. Chikwakwa	Transportation	18,000.00
						<u>375,259.15</u>
30/01/17	19283	Zomba Mtonya	Nachuma Chimbalanga Road	Martin Mbaya	Wages	532,800.00
25/04/17	21762	Zomba Mtonya	Nachuma Chimbalanga Road	Zakeyu Mussa		630,015.00
25/04/17	21763	Zomba Mtonya	Nachuma Chimbalanga Road	MRA	Tax	19,485.00
						<u>649,500.00</u>
20/09/16	17677	Zomba Mtonya		Rachel Supplies	Materials	512,160.00

## PART IV

### CONCLUSIONS AND RECOMMENDATION

#### CONCLUSION

61. There are a number of challenges in the Local Councils that will need urgent attention if the decentralization process is 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. You will notice that a Disclaimer of Opinion has been issued to twenty Councils. Similarly, fifteen Councils failed to prepare and produce the financial statements.

Another deficiency that will need immediate attention is preparation and maintaining of fixed asset registers in the Councils.

The following observations were noted during the audit:—

- Documents not provided for audit inspection
- Payments without supporting documents
- Failure to maintain a Fixed Asset Register
- Poor Fuel Management
- Poor Stores Management
- Failure to record transactions in the cashbook
- Unauthorised Payments
- Breach of the provisions of the Public Procurement Act and its related Regulations.
- Failure to Prepare Bank Reconciliation Statements
- Non-remittance of PAYE and other tax to Malawi Revenue Authority
- Construction materials for projects not delivered
- Payment for no work done or Non Existent CDF Projects
- Failure to produce financial statements

It is my view that Government should immediately do a review initiative to establish the cause of the recurring problems like fuel mismanagement, stores mismanagement, project mismanagement (CDF, DDF, LDF) and also persistent absence of primary accounting documents during the time of audit.

62. 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.

## **RECOMMENDATION**

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 stipulated under section 14 of the Public Audit Act.

A summary of my recommendations include: -

- The Councils should be staffed with qualified personnel, who will be able to adequately maintain accounting books.
- Councils should ensure that the Fixed Asset Register is maintained for accountability of Non-Current assets.
- 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 for Councils to adhere to procurement procedures and systems Council and the Office of the Director of Public Procurement should be requested to assist in training of personnel in procurement procedures in the 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 ensure that proper records management is in place to avoid loss of supporting documents and failure to account for fuel and stores.
- The Councils should ensure proper coordination with Members of Parliament (especially on CDF project management) to ensure that there is adherence to laws and regulations
- The Councils should ensure that the statutory deadline for the production of financial statements should be adhered to at all times
- The Ministry of Local Government and Rural Development should ensure that there is no frequent rotation and turnover of accounting staff which has greatly impacted on the performance of councils

**July, 2018**

**LILONGWE**

## **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**

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**

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**

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**

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**

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**

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 below:

#### **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.