

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

For The Years Ended 30th June, 2015 and 2016

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

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

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

8th June, 2018

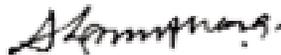
The Right Honourable Speaker
National Assembly
Private Bag B362
Capital City
Lilongwe 3

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 provision of Section 184 (2) of the Constitution of the Republic of Malawi and the Sections 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 the City and District Councils for the years ended 30th June, 2015 and 2016 for tabling in the National Assembly.

Yours faithfully,



S. D. L. KAMPHASA
Auditor General

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ACRONYMS

CDF:	Constituency Development Fund
DC:	District Commissioner
DDF:	District Development Fund
FISP:	Farm Input Subsidy Programme
GRF:	General Resource Fund
IFMIS:	Integrated Financial Management Information System
IPC:	Internal Procurement Committee
IPSAS:	International Public Sector Accounting Standards
IRLAD:	Irrigation, Rural Livelihoods and Agricultural Development
ISSAIs:	International Standards of Supreme Audit Institutions
LGA:	Local Government Act of 1998
MRA:	Malawi Revenue Authority
NLGFC:	National Local Government Finance Committee
ORT:	Other Recurrent Transactions
PAA:	Public Audit Act of 2003
PFMA:	Public Finance Management Act of 2003
PPA:	Public Procurement and Disposal of Public Assets no 41 of 2016

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EXECUTIVE SUMMARY

In accordance with Section 6 of the Public Audit Act (PAA) of 2003 and Section 54(1) of the Local Government Act of 1998, I have, on behalf of the National Assembly, examined and enquired into and audited the accounts of City and District Councils for the years ended 30th June, 2015 and 2016.

Scope of Audits

The audit of the Councils' financial statements was conducted on all Councils in Malawi for two financial years ended 30th June, 2015 and 2016 and the audits were performed in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). The audits were intended to provide an overall assurance of the general accuracy and propriety of the Councils' financial and accounting transactions. Although the audits were conducted in accordance with ISSAIs, they do not guarantee absolute accuracy of the accounts or detection of every error, financial irregularities and fraud.

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

Audit Methodology

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

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

Main Findings

The following main observations were noted during the audit:—

- Documents not provided for audit inspection
- Payments without supporting documents
- Failure to maintain a Fixed Asset Register
- 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
- Unauthorised Payments
- Breach of the provisions of the Public Procurement and Disposal of Public Assets no 41 of 2016 and its related Regulations.
- Failure to Prepare Bank Reconciliation Statements
- Non-remittance of PAYE tax to Malawi Revenue Authority
- Unsupported Payables

General Recommendations

- The Councils should be staffed with qualified personnel, who will be able to adequately maintain accounting books and timely prepare financial Statements. Poor record management has contributed to my issuing of a disclaimer of opinion on the Financial Statements of all Councils.
- Councils should ensure that financial reporting is in line with the International Public Sector Accounting Standards and relevant financial regulations
- 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 improve procurement procedures and systems in all Councils and the Office of the Director of Public Procurement should be requested to assist in training of personnel in procurement procedures in the Councils.
- 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.

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 thereby enabling the production of this report. I also wish to express my profound gratitude and appreciation to KFW for the financial support for the audits.

I wish to acknowledge the assistance and cooperation rendered by the Ministry of Finance, 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 principle duties of my office.
2. Section 184 (2) of the same Constitution requires me to submit reports at least once a year to the National Assembly through the Minister responsible for Finance. Although Section 15 of the PAA requires me to 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.
3. The PAA provides, inter alia, for the administration, control and audit of the public finances of Malawi. In discharging these duties, I am required under Section 6 (4) (d) of the same Act to determine whether the procedures and systems of internal control of each Ministry, Department, Agency and public authority or body do ensure that:—
 - Revenue is properly assessed and collected;
 - Expenditure is validly and correctly authorized;
 - Revenue, expenses, assets and liabilities are properly recorded and accounted for;
 - Financial and operating information is reliable;
 - Assets are safeguarded against loss or destruction;
 - Resources are employed and managed in an economic, effective and efficient manner;
 - There has been no waste or extravagance;
 - Outcomes or provisions produced are consistent with those specified in any Appropriation Act;
 - Relevant Government policies and legislation are being complied with;
 - All expenditure is charged against the relevant allocation appropriated by the National Assembly; and
 - The accounts and records have been properly kept.

4. Section 6 (3) of the PAA requires the Auditor General to audit and examine transactions, books and accounts and other financial records associated with any project, programme, and any other activity receiving funding in whole or in part from public money, public resources which in my opinion justifies further investigations.
5. In fulfilling these duties, powers and responsibilities lawfully conferred on me under Section 7 (1) of the PAA, I am required and any person authorized by me to:—
 - (a) Have full access at all reasonable times to all documents, books and accounts, public funds, public securities, government contracts, and books and accounts relating thereof and subject to audit, and to any place where they are kept;
 - (b) Request any person to supply any information or answer any questions relating to documents, books and accounts, money, or operations subject to audit and examination by me;
 - (c) Give notice in writing, requiring any person having possession or control of any documents, books and accounts subject to audit and examination by me to deliver all or any of them at a time and place and to such person specified in the notice;
 - (d) Inspect, measure or test any real or personal property to which any Government contract relates; and
 - (e) Enter any land, building, or place, other than a dwelling house, where a government contract is being performed that is subject to audit and examination by me.

Compilation and Submission of Financial Statements

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

Controlling Officer's Responsibility

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

Financial Management and Accounting Procedures for District Councils, District Development Fund Management Manual and other relevant Acts of Parliament.

8. In preparing the financial statements, the Controlling Officers have the following responsibilities:—
 - (a) Maintenance of proper accounting records;
 - (b) Selection of suitable accounting policies and applying them consistently;
 - (c) Making judgments and estimates that are reasonable and prudent;
 - (d) Compliance with applicable standards when preparing financial statements subject to any material departures being disclosed and explained in the financial statements;
 - (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 the estimates.

Scope of Audit

10. In compliance with Section 13 of the PAA which requires me to use Generally Accepted Auditing Standards, the audit of the Councils' accounts was performed in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). The audit was intended to provide an overall assurance of the general accuracy and propriety of the Councils' financial and accounting transactions. Although the audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), it does not guarantee absolute accuracy of the accounts or detection of every error, financial irregularities and fraud.

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

Audit Methodology

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

Audit Reports

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

Audit Opinion

14. For both the years ended 30th June 2015 and 2016, I issued a Disclaimer of Opinion i.e I was unable to express an opinion on the Financial Statements due to material differences between Financial Statements and underlying records.

PART II

STRUCTURE AND OVERALL PERFORMANCE

Financial Management and Administration Policies

15. The Local Authorities' Financial Management is governed by the Local Authorities Accounting and Financial Management Procedures Manual of May, 2009. However, the following prevailing legal instruments provide the overarching framework:—
- The Constitution of the Republic of Malawi, 1994;
 - The Public Finance Management Act (PFMA), 2003;
 - The Public Audit Act (PAA), 2003;
 - The Public Procurement Act (PPA), 2003;
 - The Local Government Act (LGA), 1998;
 - The Corrupt Practices Act (CPA), 1998; and
 - By-laws of the Local Authority

Budgeting process

16. The Budgeting guidelines used in the Local Authorities were developed by Ministry of Finance. These are further elaborated by the NLGFC to include locally generated revenues, development partners grant to the Local Authorities and sectoral guidance for the planning period. The budgeting process undergoes several stages which are shown in Figure 1 below:

BUDGETING PROCESS FOR THE COUNCILS

Budgeting Process Local Government

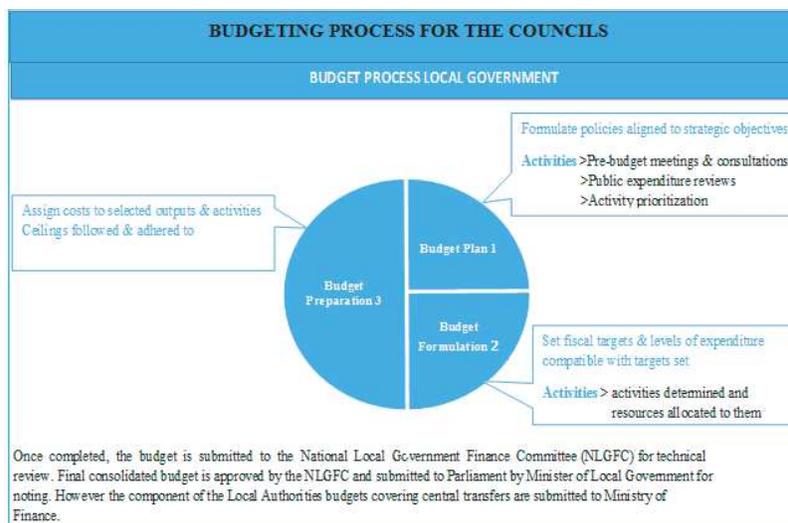


Figure 1: Budgeting process for the Councils

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 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;

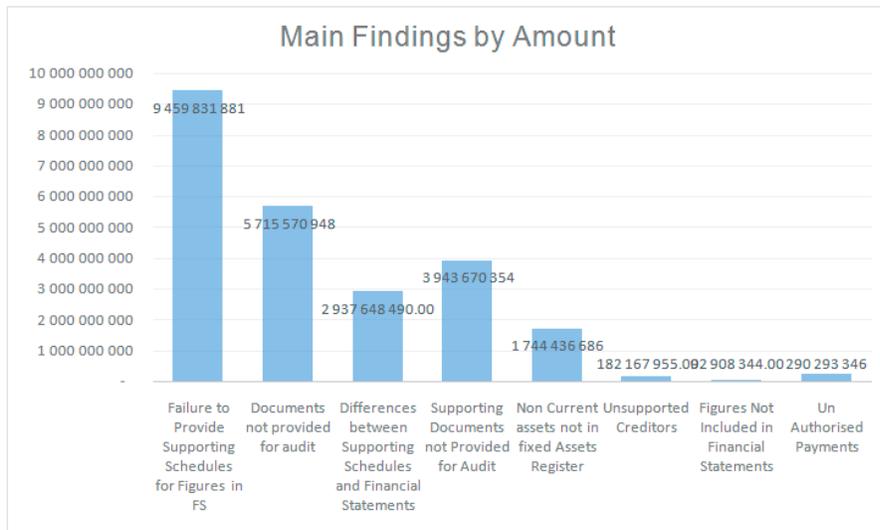


Figure 3: Summary of Major Common Findings in Malawi Kwacha

The figure above depicts how non-compliance can affect the reports’ true and fair view where substantial amounts of money used is not properly recorded in the books of accounts for purpose of objective reporting. This can mislead whoever is relying on such reports.

Main Findings by Council

(a) Payment Vouchers Not Attached With Supporting Documents

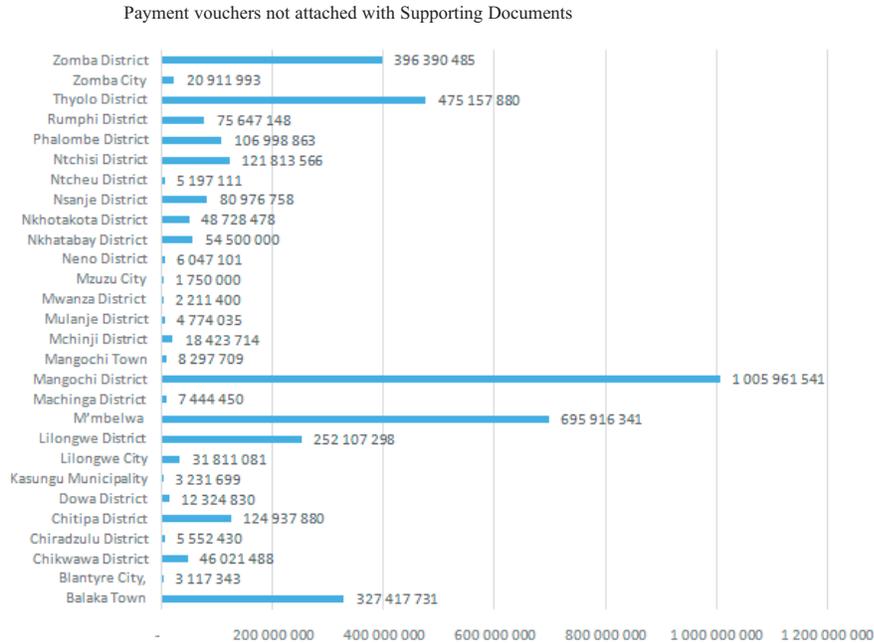


Figure 4: Payment Vouchers without supporting documents by Council in Malawi Kwacha

The above graph 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) Failure To Maintain Fixed Asset Register By Council And Amount

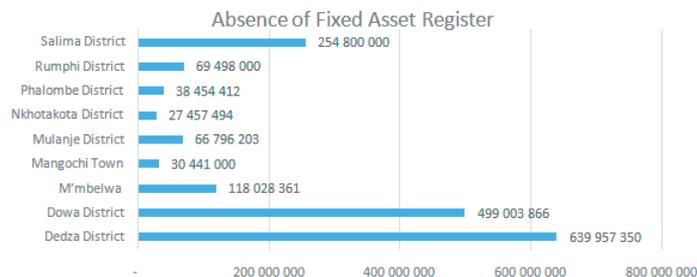


Figure 5: Failure to Maintain fixed asset register by Council in Malawi Kwacha

Figure 5 above depicts the significant values of fixed assets that are not in the registers of various Councils which shows the high risk that such assets are exposed and that would lead to the loss of properly if not well recorded and managed by Councils.

(c) Failure To Include Some Figures In The Financial Statements

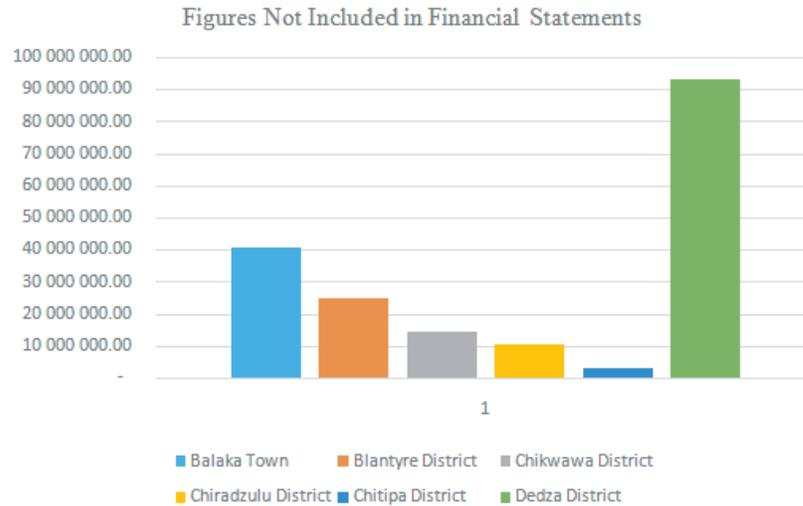


Figure 7: Failure to include some figures in the Financial Statements

Figure 7 above depicts some significant amounts for both income and expenditure which were not included in the financial Statements. 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.

(e) Documents Not Presented Tor Audit Inspection

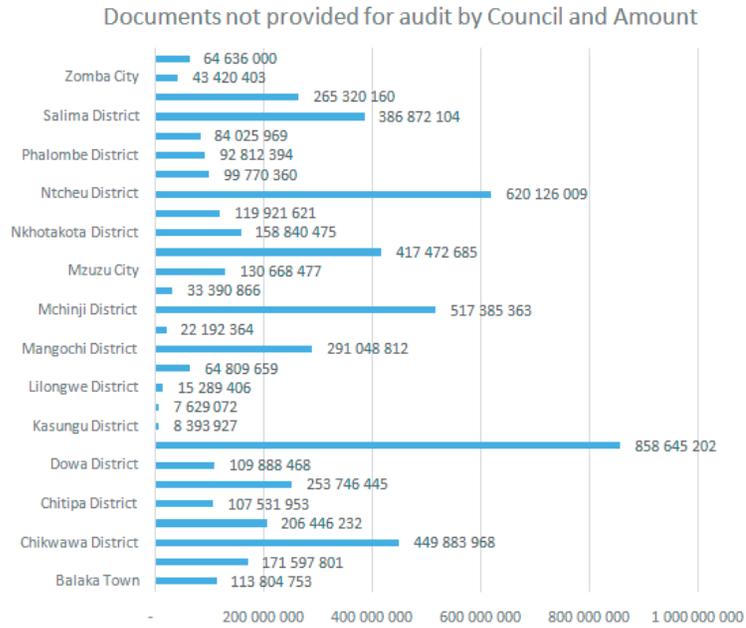


Figure 8: Documents Not Provided for Audit Inspection

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

(f) Unauthorized Payments

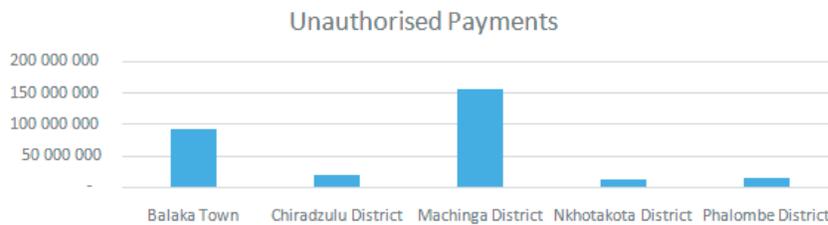


Figure 9: Unauthorized Payments

The above graph shows how each some payments were effected without being authorized by the relevant authorities within the Council. Such practices would encourage unauthorized and fraudulent transactions to occur.

(g) Unsupported Payables (Creditors)

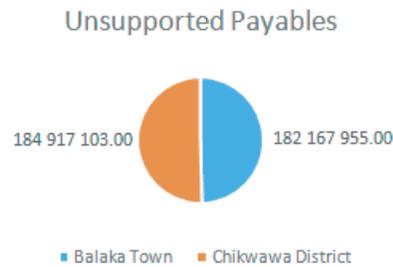


Figure 10: Unsupported Payables

The above graph shows how Balaka Town and Chikwawa District Councils failed to produce supporting schedules for the Payables in the Statement of Financial Position. Fictitious figures for Payables could be included.

(h) Failure To Provide Supporting Schedules For Figures In The Financial Statements

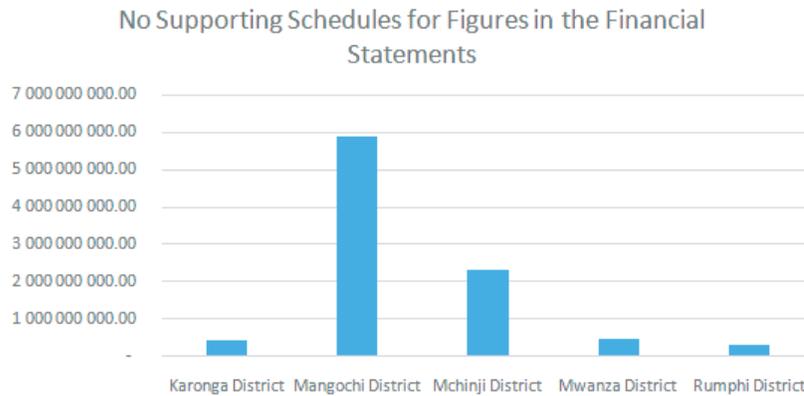


Figure 11: Failure to Provide Supporting Schedules for Figures in the Financial Statements

The above graph shows how Councils failed to produce supporting schedules for Figures in the Financial Statements.

Comparative Analysis of recurring Irregularities between 2013 & 2014 and 2015 & 2016 Auditor General's Reports

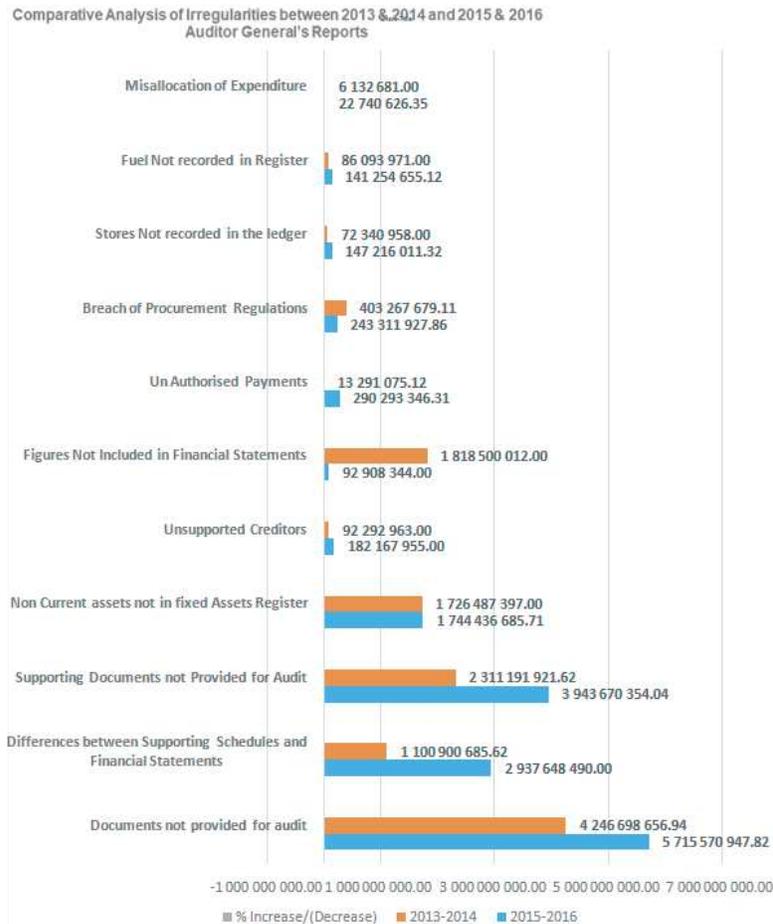


Figure 12: Comparative Analysis of Recurring Irregularities as per Two Auditor General's Reports

The figure above gives a comparative analysis of recurring irregularities in the Councils as reported in two Auditor General's reports of 2013-2014, and 2015-2016. A majority of irregularities increased between the two periods as follows: Documents not provided for audit (35%), differences between Supporting Schedules and Financial Statements (167%), Supporting Documents Not Provided for Audit (71%), Unsupported Creditors (97%), unauthorized Payments (2084%), stores not recorded in the ledger (104%), Fuel Not recorded in Register (64%) and Misallocation of Expenditure (271%). Decreases were noted on only two items namely Figures Not Included in Financial Statements (-95%) Breach of Procurement Regulations (-40%)

Other Significant Irregularities

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

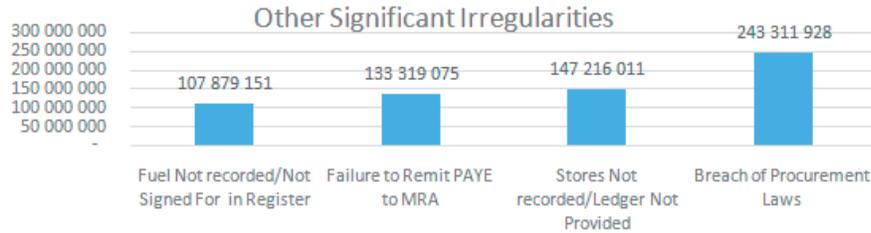


Figure 13: Other Significant Irregularities

The above graph shows that apart from the main findings above, there were other irregularities which were also quite significant. These include; breach of procurement regulations, Stores Not Recorded/Ledger Not provided, Failure to Remit PAYE to MRA as well as Fuel Not Recorded/Not signed for in the Register.

Other Significant Irregularities by Council

(a) Breach Of Procurement Regulations

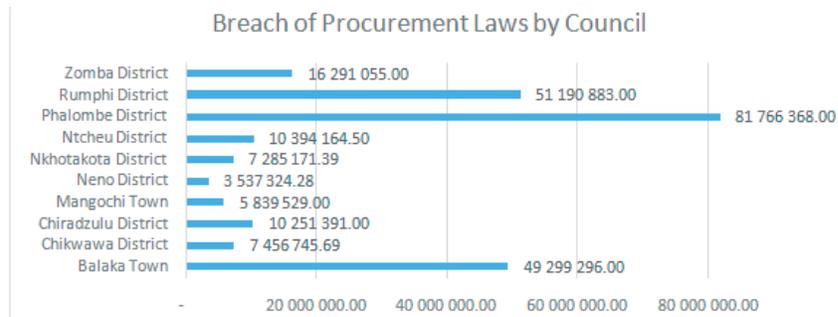


Figure 14: Breach of Procurement Laws

The above graph presents by figure and Council on how Procurement Laws were breached.

(b) Stores Not Recorded/Ledger Not Provided

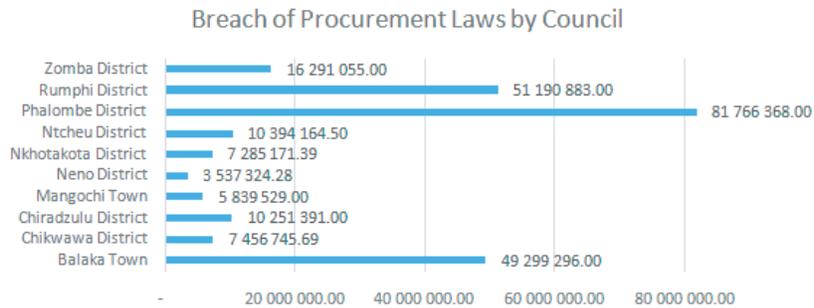


Figure 15: Stores Not Recorded/Ledger Not provided

The above graph presents how the Councils poorly managed the Stores.

(c) Failure To Remit PAYE To MRA

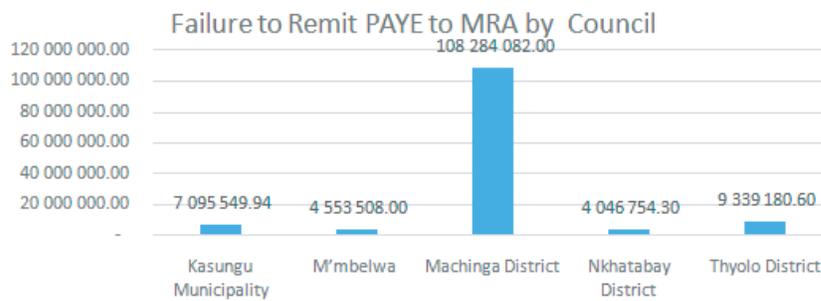


Figure 16: Failure to Remit PAYE to MRA

The above graph presents how the Councils failed to comply with Tax Regulations.

(d) Fuel Not Recorded/Not Signed For In Register By Council

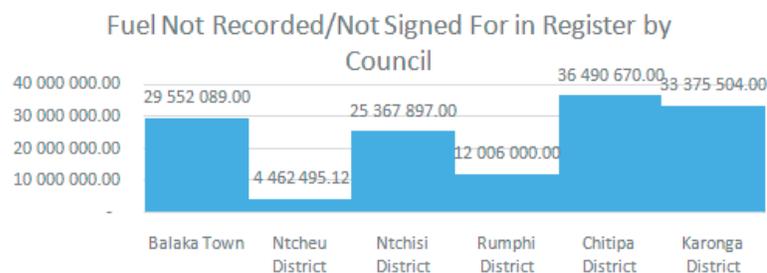


Figure 17: Fuel Not Recorded/Not Signed for In Register by Council

The above graph presents how the Councils failed to manage fuel.

Other Isolated Irregularities

I now present a third category of irregularities by Council.

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

COUNCIL	Construction Materials not Delivered	Understatement of Donor Receipts	Maintenance of Motor Vehicle Without PVHES Approval	Misallocations	Ineligible Expenditure	Undercharging of Customers	Unsubstantiated Salary Movement	Revenue Not banked
Karonga District				16,899,061.35				
Lilongwe City				5,841,565.00				
Machinga District	35,746,104.00							
Mzuzu City						3,529,571.00	2,471,429.31	
Nkhatabay District								1,890,320.00
Ntcheu District			7,416,688.63					
Ntchisi District		30,000,000.00						
Phalombe District					2,800,000.00			
Rumphi District					3,833,354.00			

PART III

AUDIT RESULTS OF THE COUNCILS

General Audit Observations

24. An audit financial statements of the Local Councils was completed in December, 2017. Between January, 2018 and May, 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 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 Town, 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, Mangochi Town, 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 and management of local Councils should take issues of accountability seriously as 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 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 continue to fail 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. For some Councils I failed to express an opinion on the financial statements because they could not be produced during the time of audit.

There is a continued problem of late submission of financial statements for 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.

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
 - Payments without supporting documents
 - Failure to maintain a Fixed Asset Register
 - 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
 - Unauthorised Payments

SPECIFIC AUDIT FINDINGS

BALAKA DISTRICT COUNCIL

30. An audit of Balaka Town Council for the years ended 30th June, 2015 and 2016 was completed in October, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Failure To Include Some Assets In The Fixed Assets Register

Section 16.7 of the Local Authority Accounting and Finance Public Finance Management Procedures Manual states that Local Authorities shall maintain a Fixed Asset Register that in which details of all fixed assets owned by the Local Authority shall be recorded.

It was observed that the fixed asset register does not include the following assets: Balaka District Hospital, Balaka Stadium, Balaka District Agriculture Office and Balaka District Education Office. This entails that Property, Plant and Equipment was understated in the financial statements.

(b) Failure To Value Property, Plant & Equipment

Section 16.3 of Local Authority Accounting and Financial Management Procedures Manual provides that where the fixed asset acquisition is by Donation, the Local Authority shall get all necessary documentation relating to the donated fixed asset including cost of the fixed asset.

Where the value of the donated fixed asset is not readily available, the asset shall be valued at market value through registered valuers.

It was observed that the fixed asset register contains assets that do not have values due to the fact that they were donations or given by the Government of Malawi. These assets without values are mostly at the secretariat and include the following: Nissan BN 71 091MG 029, BN 7510, BQ7510, MG291U, Compaq Computer set, Dell Computer Set, Dell Computer Set, Dell Computer Set, 10 Visitors Chairs, and 2 Visitors Chairs.

(c) Property, Plant & Equipment – Absence Of Title Deeds

Section 10(1) (c) of the Public Finance Management Act of 2003 provides that each Controlling Officer is responsible for ensuring that, in relation to his Ministry-all accounts and records relating to the functions and operations of the Ministry are properly maintained.

It was observed during the audit that Balaka District Council failed to present Title Deeds for land and buildings for audit review. In the absence of the Title Deeds it is not possible to conclude on whether land and buildings are owned by the council.

(d) Receivables – Failure To Surcharge On Overdue Town Rates: K257,018,108.07

Section 86(2) of the Local Government Act 1998 states that “the Assembly shall make a surcharge on any rate remaining unpaid sixty days after the date on which such rate becomes payable.” The surcharge made under subsection (2) shall be calculated at the rate of 4% per month or part thereof.

It was observed during the audit that the Council did not charge the 4% surcharge on the overdue town rates which had accumulated to K130,471,000.00 and K126,547,108.07 as at 30th June, 2015 and 30th June, 2016 respectively. Failure by the Council to charge 4% surcharge on overdue town rates resulted in rates receivable balances for the year under review to be materially understated.

(e) Trade Receivables List Not Submitted For Audit: K265,446,035.00

Section 78(1) and (2) of the Public Finance Management Act 2003 states that a statutory body or a subsidiary shall keep proper accounts and records of its transactions and financial position, and shall do all things necessary to ensure that all payments are correctly made and properly authorized and shall maintain adequate internal control over its assets, or assets in its custody, and over the incurring of liabilities by it.

A statutory body or a subsidiary shall keep the accounts and records referred to in subsection (I) in such a way as to facilitate the preparation of financial statements required by section 79 and enable them to be conveniently and properly audited.

To the contrary management of Balaka District Council did not present trade receivables list for receivables amounting to K138,058,035 and K127,388,000 as 30th June 2015 and 30th June 2016 respectively. In the absence of a receivables list, we were not able to verify completeness, recoverability of the trade receivables.

(f) Failure To Provide Supporting Documents For Trade Receivables Recovered: K28,093,282.00

Section 78(1) and (2) of the Public Finance Management Act 2003 states that a statutory body or a subsidiary shall keep proper accounts and records of its transactions and financial position, and shall do all things necessary to ensure that all payments are correctly made and properly authorized and shall maintain adequate internal control over its assets, or assets in its custody, and over the incurring of liabilities by it.

A review of financial statements showed that total amounts of K6,561,589 and K21,531,693.00 were recovered from trade debtors in the financial years ended 30th June 2015 and 30th June 2016 respectively. However, documentation to support the amounts recovered

was not presented for audit review therefore the accuracy of the amounts recovered could not be ascertained.

(g) Cash And Bank – Bank Reconciliation Statements Not Prepared

Section 5.7 of the Local Authorities Accounting and Finance Management Procedures manual stipulates that local authorities should prepare bank reconciliation statements for each account monthly.

It was however observed that for the period under audit bank reconciliation statements for the following accounts were not prepared; (i) NBS Bank - Stadium Account (Account number 0060664665018) and (ii) Standard Bank - Operations Account (Account number 0140064614800).

(h) Cash And Bank – Bank Balances Not Included In The Financial Statements: K19,771,019.82

Section 10(1) (c) of the Public Finance Management Act of 2003 states that each Controlling Officer is responsible for ensuring that, in relation to his Ministry-all accounts and records relating to the functions and operations of the Ministry are properly maintained;

It was observed that the following bank account balances (in Table 2 below) were not included in the financial statements:

Table 2: Bank Balances Not Included In The Financial Statements- Balaka DC

<u>Bank</u>	<u>Period</u>	<u>Account number</u>	<u>Cash book balance at 30 June 2016</u>
NORAD	2014/2015		-7,320,367.72
RBF	2014/2015	140081775001	95,786.00
NORAD	2015/2016		2,150,938.43
RBF	2015/2016	140081775001	10,203,927.67

(i) Failure To Provide Support For Payables: K182,167,955.00

Section 78(1) and (2) of the Public Finance Management Act 2003 states that a statutory body or a subsidiary shall keep proper accounts and records of its transactions and financial position, and shall do all things necessary to ensure that all payments are correctly made and properly authorized and shall maintain adequate internal control over its assets, or assets in its custody, and over the incurring of liabilities by it.

A statutory body or a subsidiary shall keep the accounts and records referred to in subsection (I) in such a way as to facilitate the preparation of financial statements required by section 79 and enable them to be conveniently and properly audited.

A review of the financial statements for the year ended 30 June 2015 showed that payables amounting to K182,167,955.00 had no supporting documentation.

(j) Valuation Roll Not Revalued For More Than Five Years.

Section 65(1) of the Local Government Act of 1998 provides that the Assembly shall continuously or from time to time and in any event not less than once in every five years, cause to be made and entered into a valuation roll for the local government area a valuation of all assessable property within such area.

It was observed that the valuation roll in use is more than 5 years old and is overdue to be updated to the most current property valuation. The continued use of an outdated Valuation Roll may lead to revenue under-collection by the Council.

(k) Decent Accommodation And Housing Subsidy Programme (DAHSP) - Receipts And Expenditure Not Included In The Financial Statements: K20,881,822.53

Section 78(1) and (2) of the Public Finance Management Act 2003 states that a statutory body or a subsidiary shall keep proper accounts and records of its transactions and financial position, and shall do all things necessary to ensure that all payments are correctly made and properly authorized and shall maintain adequate internal control over its assets, or assets in its custody, and over the incurring of liabilities by it.

A review of entries posted in the Councils Operations Account showed that an amount of K15,018,648.00 was received from the Government of Malawi for the Decent Accommodation and Housing Subsidy Programme (DAHSP) and K5,863,174.53 was spent for this Programme. These figures were not disclosed in the financial statements of the Council for the year ended 30th June, 2016.

(l) Employee Costs – Discrepancies In Total Emoluments Figure: K31,256,966.00

Section 10(1) (f) of the Public Finance Management Act of 2003 states that Each Controlling Officer is responsible for ensuring that, in relation to his Ministry: 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;

It was observed during the audit that there were differences between total monthly emoluments for direct staff as per payroll ledger and the figures in the financial statements of K10,176,439.00 and K21,080,527.00 for 2014/2015 and 2015/2016 financial years respectively. Details are shown in Table 3 below:

Table 3: Discrepancies in Total Emoluments between Ledger and Financial Statements-Balaka DC

<u>Description</u>	<u>Year</u>	<u>MK</u>
Total emoluments as per payroll ledger	2014/2015	25,977,412
Total emoluments as per financial statements	2014/2015	15,800,973
Difference		<u>10,176,439</u>
Total emoluments as per payroll ledger	2015/2016	34,855,770
Total emoluments as per financial statements	2015/2016	55,936,297
Difference		<u>21,080,527</u>

(m) Payment Vouchers Not Presented For Review: K113,804,753.00

Section 78(1) and (2) of the Public Finance Management Act 2003 states that a statutory body or a subsidiary shall keep proper accounts and records of its transactions and financial position, and shall do all things necessary to ensure that all payments are correctly made and properly authorized and shall maintain adequate internal control over its assets, or assets in its custody, and over the incurring of liabilities by it.

A statutory body or a subsidiary shall keep the accounts and records referred to in subsection (I) in such a way as to facilitate the preparation of financial statements required by section 79 and enable them to be conveniently and properly audited.

It was observed during the audit that payment vouchers for the year under review amounting to K67,751,760.00 and K46,052,993.00 for the years ended 30th June, 2015 and 30th June, 2016 respectively were not presented for audit. In the absence of the payment vouchers and the related supporting documents it was difficult to ascertain the validity of the expenditures.

(n) Payments Made Without Requisitions And Inadequate Information: K140,583,750.00

Section 5.5.2 of the Local Authority Financial Management Procedures Manual states an expenditure requisition shall be raised by the appropriate department and certified by the Head of department and that the expenditure requisition should be approved by the DC/CE and that the approved expenditure requisition shall be used for preparation of a payment voucher;

In the course of audit, we noted that payments totaling K58,144,243.00 and K82,439,507.00 for 2014/2015 and 2015/2016 financial years respectively were either not supported by requisitions or had requisitions with inadequate information, therefore verification of the

validity of the expenditures could not be done. Details are in table 4 below:

Table 4: Payments made without requisitions and Inadequate information-Balaka DC

<u>Account</u>	<u>Year</u>	<u>Amount (MK)</u>	<u>Remarks</u>
Donor Payments	2014/2015	17,118,820.00	
Other Recurrent Transaction	2014/2015	14,808,072.00	
Salaries	2014/2015	26,217,351.00	
		<u>58,144,243.00</u>	
Donor Payments	2015/2016	5,922,498.00	Without requisitions
Donor Payments	2015/2016	12,685,443.00	In adequate information
ORT	2015/2016	44,797,476.00	
CDF/ Dev. Fund	2015/2016	10,193,646.00	Without requisitions
DISTRICT DEVELOPMENT FUND/ Dev. Fund	2015/2016	8,840,444.00	In adequate information
		<u>82,439,507.00</u>	

(o) Failure To Authorize Expenditure Requisitions And Payment Vouchers: K91,427,640.00

Section 10(1) (f) of the Public Finance Management Act of 2003 provides that Each Controlling Officer is responsible for ensuring that, in relation to his Ministry- 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;

Examination of payment vouchers for the period under review revealed that payment requisitions amounting to K22,464,270.00 and K68,963,370.00 for 2014/2015 and 2015/2016 financial years respectively, were not authorized by the District Commissioner. In the absence of proper authorization, the authenticity of the payments could not be established.

(p) Payment Vouchers Without Supporting Documentation: K161,778,956.00

Section 78(1) and (2) of the Public Finance Management Act 2003 states that a statutory body or a subsidiary shall keep proper accounts and records of its transactions and financial position, and shall do all things necessary to ensure that all payments are correctly made and properly

authorized and shall maintain adequate internal control over its assets, or assets in its custody, and over the incurring of liabilities by it.

A statutory body or a subsidiary shall keep the accounts and records referred to in subsection (I) in such a way as to facilitate the preparation of financial statements required by section 79 and enable them to be conveniently and properly audited.

Examination of payment vouchers for the period under review revealed that payment vouchers totaling K47,623,114.00 and K114,155,842.00 for the years ended 30th June, 2015 and 2016 respectively did not have supporting documentation. As such the genuineness of the expenditure incurred could not be validated. Details are in Table 5 below:

**Table 5: Payment Vouchers Without Supporting Documents-
Balaka DC**

<u>Account</u>	<u>Year</u>	<u>Amount (MK)</u>
Donor Payments	2014/2015	22,720,137.00
Other Recurrent Transactions	2014/2015	2,438,707.00
Local Development Fund	2014/2015	22,464,270.00
		<u>47,623,114.00</u>
Donor Payments	2015/2016	57,977,872.00
Other Recurrent Transactions	2015/2016	2,629,975.00
DISTRICT DEVELOPMENT FUND – payments	2015/2016	53,547,995.00
		<u>114,155,842.00</u>

(q) Fuel Not Recorded In The Fuel Register: K25,633,617.00

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 fuel registers revealed that the council purchased fuel worth K14,933,065.00 and K10,700,552.00 in the financial years ended 30th June, 2015 and 30th June, 2016 respectively but the fuel was not recorded in the fuel registers. In the absence of recording in the registers it was difficult to ascertain how the fuel purchased was accounted for. Details are in Table 6 below:

Table 6: Fuel not recorded in the Fuel Register-Balaka DC

Account	2014/2015 Amount (MK)	2015/2016 Amount (MK)	Total Amount (MK)
Donor Funds	7,001,313.00	7,931,752.00	14,933,065.00
Other Recurrent Transactions	7,303,270.00	3,397,282.00	10,700,552.00
Total	14,304,583.00	11,329,034.00	25,633,617.00

(r) Fuel Not Signed For In The Fuel Registers: K3,918,472.52

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.

It was observed during the audit that the Council issued fuel worthy K3,918,457.52 to different motor vehicles in the year ended 30th June, 2015 but the fuel was not signed for by the responsible officers in the fuel registers. In the absence of signatures of the recipients it was difficult to establish if the fuel was used for the intended purposes.

(s) Payment Vouchers For Results-Based Financing (RBF) Without Supporting Documents: K25,055,025.00

Section 78(1) and (2) of the Public Finance Management Act 2003 states that a statutory body or a subsidiary shall keep proper accounts and records of its transactions and financial position, and shall do all things necessary to ensure that all payments are correctly made and properly authorized and shall maintain adequate internal control over its assets, or assets in its custody, and over the incurring of liabilities by it.

Examination of payment vouchers at the Council revealed that payments for conditional cash transfer for pregnant women in the Result Based Funding project were not fully supported with a list of beneficiaries. This resulted into a total of MK25,055,025 which could not be traced to beneficiaries. In the absence of list of beneficiaries, it was not possible to ascertain how the amount was accounted for.

(t) Procurement Without Obtaining The Required Minimum Of Three Quotations: K49,299,296.00

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

It was however observed during the audit that purchases of goods and services totaling K19,741,887.00 and K29,557,409.00 were made without obtaining at least three comparable quotations from different suppliers during the financial years ended 30th June, 2015 and 30th June, 2016 respectively.

Failure to comply with the regulations may have led the Council to procure goods and services at exorbitant prices.

(u) Stores Ledgers Not Presented For Audit Inspection: K52,125,838.00

Section 78(1) and (2) of the Public Finance Management Act 2003 states that a statutory body or a subsidiary shall keep proper accounts and records of its transactions and financial position, and shall do all things necessary to ensure that all payments are correctly made and properly authorized and shall maintain adequate internal control over its assets, or assets in its custody, and over the incurring of liabilities by it.

The management of the Council did not present Stores ledgers for the headquarters as such we could not verify stores receipts, issues and site deliveries of stores items valued at K9,773,488.00 and K42,352,350.00 purchased during the financial years ended 30th June, 2015 and 30th June, 2016 respectively.

BLANTYRE DISTRICT COUNCIL

31. An audit of Blantyre City Council for the years ended 30th June, 2015 and 2016 was completed in June, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Differences Identified Between The Annual Financial Statements And The General Ledger: K771,377,219.41

During the audit of expenditure, we noted that total expenditure as per the General Ledger/Trial Balance was K1,172,319,043.71 while total expenditure reflected in the financial statements was K1,943,696,263.12 giving a significant variance of K771,377,219.41.

(b) Receivables – Failure To Bill Customers And Impose Finance Charges On Outstanding Balances

Section 10(1)(j) of the Public Finance Management Act of 2003 states that each Controlling Officer is responsible for ensuring that, in relation to his Ministry-any tax, duty, fee, levy or other charge imposed by legislation for which the Ministry is responsible is collected promptly and to the fullest extent;

A review of customer's statements in the IFMIS system revealed that some customers were not being billed and no finance charges were being

charged on the outstanding balances. The following are some of the customers whose accounts which were not being billed as at July, 2017. Failure to bill customers and impose finance charges on the outstanding balances results in loss of revenue. Details are shown Table 8 below:

Table 8: Failure to bill customers and impose finance charges on outstanding balances-Blantyre City Council

<u>ACCOUNT NUMBER</u>	<u>NAME OF CUSTOMER</u>	<u>BALANCE AS AT 30 JUNE 2015</u>	<u>REMARKS</u>
40040056	OPPORTUNITY INT'L BANK	-599,625	They stopped billing in 2012
40113661	KANJO	265,240	No billing from 2012. They stopped charging finance charges from Nov 2016
40132842	M'DALA	129,000	No billing from 2014. They stopped charging finance charges from Oct 2016
40132879	MLANGA	220,962	No billing from 2014. finance charges stopped in Oct 2016
40136850	MIKE GENERAL SUPPLIES	2,064,000	stopped billing in 2014, finance charges stopped in Oct 2016
40196660	SHIRE BUS LINES	354,500	stopped billing in 2014, finance charges stopped in Oct 2016
40210250	UNIVERSAL SECURITY CO.	19,867,864	stopped billing in 2014, finance charges stopped in Oct 2016
30010052	JC DECAUX/	-5,228,058	stopped billing in 2012 Continental Outdoor
14009847	SUPERIOR HOTEL	13,205,323	No finance charges on other months
15001599	MWAIWATHU PRIVATE HOSPITAL	12,748,800	No finance charges on other months
17007562	ZOTA & WENTA ENTERPRISE	3,765,212	No finance charges on other months

Table 8 CONT'

<u>ACCOUNT NUMBER</u>	<u>NAME OF CUSTOMER</u>	<u>BALANCE AS AT 30 JUNE 2015</u>	<u>REMARKS</u>
17007571	MASANZA	738,431	No finance charges on other months
17007933	MALAWI POLICE	1,164,383	stopped billing in 2012
17010386	M.H.C. (OPENING BAL.SUSP.ACC.)	6,070,314	stopped billing in 2012
17111598	NG'AMBI	1,271,080	
17131504	MINISTRY OF EDUCATION	1,171,601	No finance charges on other months
17131505	MINISTRY OF EDUCATION	4,198,770	No finance charges on other months
19000028	ST.PATRICKS SECONDARY SCHOOL	1,965,041	stopped billing from 2012
19000029	ST.PATRICKS SECONDARY SCHOOL	2,158,303	No finance charges on other months
19000184	UNDER INVESTIGATION	2,195,408	stopped billing in November 2012
19000189	UNDER INVESTIGATION	3,473,336	Stopped billing in 2012, finance charges are not billed on other months

(c) Missing Supporting Documentation On Payment Vouchers For Donor Funds: K3,117,343.30

Section 78 of the Public Finance Management Act 2003 states that a statutory body or a subsidiary shall keep proper accounts and records of its transactions and financial position, and shall do all things necessary to ensure that all payments are correctly made and properly authorized and shall maintain adequate internal control over its assets, or assets in its custody, and over the incurring of liabilities by it.

A statutory body or a subsidiary shall keep the accounts and records referred to in subsection (I) in such a way as to facilitate the preparation of financial statements required by section 79 and enable them to be conveniently and properly audited.

It was however observed during the audit that supporting documents to payment vouchers amounting to K3,117,343.30 were not presented for audit review. As such the validity of the expenditure could not be ascertained. Details are shown in Table 9 below:

**Table 9: Missing supporting documents on payment Vouchers-
Blantyre City**

<u>DATE</u>	<u>CHEQUE NO.</u>	<u>DETAILS</u>	<u>AMOUNT</u>
20.08.2014	878	Modern Construction	647,100.00
04.02.2015	913	Billy & Dennis Construction	196,729.05
13.02.2015	(NO DETAIL)	(NO DETAIL)	15,000.00
26.05.2015	942	Chanju Building Contractors	176,163.77
08.06.2015	946	Modern Construction	2.082.350.48
			<u>3,117,343.30</u>

BLANTYRE DISTRICT COUNCIL

32. An audit of Blantyre District Council for the years ended 30th June, 2015 and 2016 was completed in October, 2017. The audit disclosed some weaknesses in financial control as highlighted the following observations:

(a) Title Deeds And Registration Certificates Not Provided

Section 7(1) (a) of the Public Audit Act, 2003, requires 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.

However, the audit team was not provided with the title deeds for the buildings and registration certificates of motor vehicles for the council. Consequently, it was impossible to verify ownership of the assets for the council.

(b) Incomplete Fixed Asset Register

Section 78(1) of the Public Finance Management Act, 2003 states that a statutory body or a subsidiary shall keep proper accounts and records of its transactions and financial position, and shall do all things necessary to ensure that all payments are correctly made and properly authorized and shall maintain adequate internal control over its assets, or assets in its custody, and over the incurring of liabilities by it. Furthermore, Section 78(2) requires a statutory body or a subsidiary to keep the accounts and records referred to in subsection (1) in such a way as to facilitate the preparation of financial statements required by section 79 and enable them to be conveniently and properly audited.

It was however noted that the asset register did not include all the assets of the council since some assets from education and health sectors were not included in the fixed assets register. This implies that non-current assets may have been misstated in the financial statements.

(c) Lack Of Vendors Register For Business Licences

Treasury Instruction 5.15.2 stipulates 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.

Contrary to the above mentioned regulation, a review of revenue records disclosed that during the year ended 30 June 2015, the Council collected revenue for business licenses without maintaining a vendor's register. This tendency may make it difficult for the council to enforce compliance on business licence payments and at the same time, there is a risk that it may under collect business licence revenue.

(d) Missing Payment Vouchers: K81,899,801.33

Treasury Instruction 5.15.1 requires Controlling Officers to 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 authorized personnel.

However, payment vouchers amounting to K41,705,862.27 and K40,193,939.06 for the 2014/15 and 2015/16 financial years respectively were not provided to the audit team as they could not be traced. It was therefore difficult for the audit team to verify the validity and accuracy of the underlying expenditure.

(e) Salary Payment Vouchers For Direct Employees Not Produced For Verification K89,698,000.00

Section 7(1) (a) of the Public Audit Act, 2003, requires 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.

However, the audit team was not provided with the salary payment vouchers for direct staff employees K34,414,000.00 and K55,284,000.00 for the 2014/15 and 2015/16 financial years respectively. It was therefore difficult for the audit team to verify propriety of employee costs as stated in the financial statements.

CHIKWAWA DISTRICT COUNCIL

33. An audit of Chikwawa District Council for the years ended 30th June, 2015 and 2016 was completed in October, 2017. The audit disclosed some weaknesses in financial control as highlighted the following observations:

(a) Title Deeds And Registration Certificates Not Provided For Audit.

Section 7(1) (a) of the Public Audit Act, 2003, requires 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.

However, the audit team was not provided with the title deeds for the buildings and registration certificates of motor vehicles for the council. Consequently, it was impossible to verify ownership of the assets for the council.

(b) Unavailability Of Bank Reconciliation And Bank Statements

Treasury Instruction 5.9 provides that accounting records should be maintained and filed in such a way that they are easily accessed and produced when requested by any authorized persons.

However, the Council did not provide the audit team with bank reconciliation statements for the period under review for the Other Recurrent Transactions (ORT) bank account, Local Development Fund and the Locally Generated revenue. It was further noted that bank statements for the following accounts: Water for People, Water Aid, Local Development Fund, Locally Generated Revenue, EU, NAC and District Development Fund were also not produced for audit review. In view of this, the audit team could not verify the controls' effectiveness in the cash and bank system.

(c) Failure To Provide Supporting Documents For Payables For Audit Inspection: K184,917,103.00

Section 7(1) (a) of the Public Audit Act, 2003, requires 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.

It was however noted that the Council failed to provide the audit team with supporting documents to payables and sundry deposits figures of MK70,322,468 and MK38,517,262 respectively for 2014/15 financial year and payables and sundry deposits figures of MK73,821,206 and MK2,256,167 respectively for 2015/16 financial year. Consequently, the audit team could not perform any test thereon thereby failing to verify the accuracy of the figures in the financial statements for the financial years.

(d) Payment Vouchers Not Provided For Audit Inspection: K292,444,467.56

Treasury Instruction 5.15.1 requires Controlling Officers to 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 authorized personnel.

However, payment vouchers amounting to K45,895,779.93 and K246,548,687.63 for 2014/2015 and 2015/2016 respectively were not provided to the audit team as they could not be traced.

(e) Payment Vouchers Without Supporting Documents: K46,021,488.03

Treasury Instruction 5.15.1 requires Controlling Officers to 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 authorized personnel.

It was noted that payment vouchers totaling K23,776,273.65 and K22,245,214.38 for 2014/2015 and 2015/2016 respectively had no supporting documents. It was therefore difficult for the audit team to verify the validity and accuracy of the underlying expenditure.

(f) Failure To Obtain A Minimum Of Three Quotations When Procuring: K7,456,745.69

Section 35 (1) of Public Procurement Act, 2003 require 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.

However, the audit team noted that during the period under review, the Council purchased various goods and services worth K7,456,745.69 and K1,812,500.00 for 2014/15 and 2015/16 financial years respectively without obtaining at least three quotations. This implies that goods and services may not have been purchased at competitive prices thereby resulting in failure to obtain optimum value for money in public procurement.

(g) Payrolls For Direct Staff Not Provided For Verification: K157,439,500.00

Section 7(1) (a) of the Public Audit Act, 2003, requires 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.

However, the audit team was not provided with the salary payment vouchers amounting to K85,510,500.00 and K71,929,000.00 in respect

of direct staff's personal emoluments for the period ending 30th June 2015 and 2016 respectively. Consequently, the audit team was unable to do any work on the figure of these personal emoluments; hence the propriety of employee costs figure in the financial statements could not be verified.

(h) District Development Fund (DDF) Bank Account Not Disclosed In The Financial Statements: K24,634,728.00

Treasury Instruction 2.5.10 stipulates that after six months (6) of each financial year and at such times as required by the Secretary to the Treasury, Controlling Officers should prepare and submit reports on the management of funds provided for the achievement of the Ministry's, Department's and Agency's outputs and the collection of revenues.

A review of bank reconciliations and cash books for the year ended 30th June 2016 revealed that a District Development Fund (DDF) account had a bank balance of K24,634,728 but the council did not disclose it as part of cash and cash equivalents in the financial statements. The tendency resulted in understatement of cash and cash equivalents in the financial statements.

CHIRADZULU DISTRICT COUNCIL

34. An audit of Chiradzulu District Council for the years ended 30th June, 2015 and 2016 was completed on 3rd November, 2017. The audit disclosed some weaknesses in financial control as highlighted the following observations:

(a) Failure To Prepare Bank Reconciliations

Section 5.7 (1) of the Local Authorities Accounting and Financial Management Procedures Manual requires that Bank reconciliations must be produced by the 10th of the following month and the Director of Finance must follow it up regularly.

The audit team was not provided with bank reconciliations and bank statements for 201/2015 and 2015/2016 financial years.

(b) Payment Vouchers Without Supporting Documents: K5,552,430.00

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.

It was observed during the audit that payment vouchers amounting to K5,552,430 had no supporting documents for 2014/2015 and 2015/2016 financial years.

(c) Unauthorized Payment Vouchers: K17,756,726.00

Chapter 14 Sub Section 3(f) of the Local Authorities Accounting and Financial Management Procedures states that “payment vouchers must be duly authorized by the Director of Finance (DoF) and countersigned by the District Commissioner (DC).”

It was noted during the audit that in some cases payment vouchers amounting to K6,284,408.00 and K11,472,318.00 for the 2014/2015 and 2015/2016 financial years were not authorized or countersigned by the DoF and DC as per the internal control procedures.

(d) Payment Vouchers Not Produced For Audit: K206,446,232.00

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 expenditure records for Chiradzulu District Council revealed that payment vouchers totaling K206,446,232.00 for the year ended 30th June 2015 were not presented for audit inspection. It was therefore difficult to ascertain the validity and propriety of the expenditure incurred.

(e) Failure To Obtain At Least Three Quotations: K10,251,391.00

Section 27(1) of the Procurement act 2003 requires a procuring entity to maintain a record and preserve documentation of the procurement proceedings for a period of years from the contract date. Each significant contract either made through open tendering or competitive bidding should have its own contract file. Well referenced. The file should have but not limited to the following: Bidding documents (Request for quotation, Bid forms, Request for no objection etc.), Evaluation report, IPC minutes, Local Purchase orders or signed contract, delivery notes and payment documents.

During the audit, it was noted that payment vouchers amounting to K7,428,680.00 and K2,822,711.00 for the 2014/2015 and 2015/2016 financial years did not have a minimum of three quotations to substantiate that adequate value for money was obtained.

CHITIPA DISTRICT COUNCIL

35. An audit of Chitipa District Council for the years ended 30th June, 2015 and 2016 was completed in November, 2017. The audit disclosed some weaknesses in financial control as highlighted the following observations:

(a) Lack Of Preparation Of Bank Reconciliations

Section 5.7 (1) of the Local Authorities Accounting and Financial Management Procedures Manual requires that Bank reconciliations must

be produced by the 10th of the following month and the Director of Finance must follow it up regularly.

It was observed that bank reconciliation statement for SAPP account for the month of June 2015 and bank reconciliation (ORT) for the whole period of 2016 were not prepared. Errors and irregularities may go undetected if cash and bank balances are not reconciled.

(b) Lack Of Evidence Of PAYE Remittance

Section 102 of the Taxation Act of Malawi states that every employer of an employee to whom this part applies shall, within 14 days after the end of each month, or within such further time as the Commissioner may in any case allow, furnish to the Commissioner a statement in a form approved by the Commissioner setting forth the name and address of every employee, the emoluments paid or payable to him and the total amount of tax deducted from such emoluments.

It was noted that PAYE deductions from payment of salaries in 2015 and 2016 financial years were not remitted to Malawi Revenue Authority within 14 days of the end of the month in which it was deducted.

(c) Failure To Produce Payment Vouchers For Audit: K107,531,953.00

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 expenditure records revealed that some payment vouchers totaling K74,456,467 and K33,075,486 for 2014/15 and 2015/16 financial years respectively, were not produced for audit. It was therefore difficult to ascertain the propriety and validity of the payments made.

(d) Allowances Paid Without Filling Request To Leave Duty Station Forms: K8,102,573.12

Treasury Instructions 5.15.1 requires every Controlling Officer to 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 2014/2015 and 2015/2016 financial years revealed that subsistence allowances amounting to K7,002,573.12 and K1,100,000 were paid to members of staff without evidence that Request To Leave Duty Station Forms were filled.

(e) Cash Drawn But Not Liquidated: K10,539,990.00

Treasury Instructions 5.15.1 requires every Controlling Officer to 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 2014/15 and 2015/16 financial years revealed that the council paid K10,539,990.00 worth of allowances in cash to its members of staff and other beneficiaries but the liquidation sheets did not have signatures of beneficiaries as evidence of receipt. As such it was difficult for the audit team to ascertain how the funds were accounted for.

(f) Locum Payments Without Being Supported By Authorised Forms: K19,186,500.00

Treasury Instructions 5.15.1 requires every Controlling Officer to 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 period from 1st July, 2014 to 30th June, 2015 revealed that locum allowances amounting to K19,186,500 from NORAD funding were paid without filling in the Locum forms.

(g) Fuel Purchased Not Accounted For: K36,490,670.00

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 the fuel records revealed that fuel amounting to K36,490,670.00 for the years ended 30th June 2015 and 2016 had no relevant fuel register as at the time of audit to ascertain its accountability. In the circumstance, the audit team could not ascertain how the fuel purchased was accounted for.

(h) Stores Purchased Not Accounted For: K52,626,043.00

Section 11.7.1.5 of 2004 Treasury Instruction requires that all stores items purchased should be recorded in the stores ledger for proper accountability.

An examination of payment records for the years ended 30th June 2015 and 2016 disclosed that stores items valued at K52,626,043.00 had no record such as ledgers or registers to ensure accountability. This made it difficult for the inspecting auditors to ascertain the disposal of the purchased items.

(i) Payment Vouchers Without Supporting Documents: K87,108,817.00

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. One of such controls is to ensure that supporting documents such as invoices and receipts be firmly attached to payment vouchers before payment is made in order to support the payment and for accountability purposes.

An examination of payment records revealed that payment vouchers for amounting to K87,108,817.00 for the two financial years had no supporting documents attached 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.

DEDZA DISTRICT COUNCIL

36. An audit of Dedza District Council for the years ended 30th June, 2015 and 2016 was completed in June, 2017. The audit disclosed some weaknesses in financial control as highlighted the following observations:

(a) Property, Plant And Equipment – No Asset Register: K639,957,350.00

The Council did not comply with the Local Government Act, Act 42 of 1998, Second Schedule section 20 (1) (a) and (d) as they did not keep an asset register that provides information on the value of such asset in the asset register.

This resulted in a limitation of scope on the Property, Plant and Equipment balance of K329135 258 and K310,822,092 in the 2014/2015 and 2015/2016 financial years respectively.

(b) The Total Amount Of ORT On Annual Financial Statements Different With The General Ledger: K734,893,337.20

It was noted that the total amount of ORT as per annual financial statements did not agree to the total amount as per the General Ledger to the tune of K498,368,011.10 and K236,525,326.10 for the 2014/2015 and 2015/2016 financial years respectively.

(c) Payment Vouchers Not Presented For Audit Inspection: K253,746,444.82

Treasury Instruction (2004) 11.6.1 stipulates that 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 above requirement, payment vouchers for ORT amounting to K102,903,021.60 and K92,855,412.72 for the 2014/2015 and 2015/2016 financial years respectively were not produced for audit.

Management also failed to produce payment vouchers for LOCAL DEVELOPMENT FUND and DISTRICT DEVELOPMENT FUND amounting to K6,275,827.50 and K51,712,183 for the 204/2015 and 2015/2016 financial years respectively.

DOWA DISTRICT COUNCIL

37. An audit of the Dowa District Council for the years ended 30th June, 2015 and 2016 were completed in June and July 2017 respectively. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Debtors- Differences Identified Between The Annual Financial Statements And The General Ledger: K2,764,232.06

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.

During the audit of trade and other receivables, it was noted that there was a significant variance between the annual financial statement and the general ledger amounting to K2,764,232.06 for the 2014/2015 financial year.

(b) Failure To Maintain A Fixed Asset Register: K499,003,866.28

Furthermore, in terms of the Local Authorities Accounting and Financial Management Procedures Manual, chapter 16.7 states, "Local Authorities shall maintain a Fixed Asset Register that will record details of all the fixed assets owned by the Local Authority. The Fixed Asset Register shall provide particulars of the different fixed assets of the Local Authority across all sectors."

Contrary to the requirement, the council had failed to substantiate property, plant and equipment valued at K499,003,866.28 for the 2014/2015 financial year as no fixed asset register was provided to substantiate the cost of these assets, accumulated depreciation, acquisitions, disposals and carrying amounts at year end.

(c) Differences Identified Between The Annual Financial Statements And The General Ledger: K1,230,697,380.93

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.

During the audit of expenditure, it was noted that there was a significant variance between the annual financial statement and the general ledger in respect of expenditure amounting to K182,892,400.67 and K1,047,804,980,26 for the 2014/2015 and 2015/2016 financial years respectively.

(d) Payment Vouchers Not Submitted For Audit: K109,888,468.35

Treasury Instruction (2004) 11.6.1 stipulates that 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, management was unable to provide for audit, payment vouchers amounting to K109,888,468.35 for the 2014/2015 financial year.

(e) Allowances Paid To Officials Without Proper Supporting Documentation: K12,324,830.00

Ministry of Finance– Government financial control accounting procedures under credit ceiling authority system (CCAS) of 2007 requires as follows;

- (i) Travelling and Subsistence claims are regulated in terms of the provisions of the MPSR and Circular Instruction issued by the Treasury and Office of the President and Cabinet. Officials responsible for processing such claims shall be fully conversant with the regulations.

During the 2014/2015 audit, it was noted that the council paid out allowances amounting to K12,324,830.00 without the relevant documentation to confirm occurrence and accuracy of the payments. It was noted that the following documents were not on file.

- i. Duly approved request to - leave - duty station - forms.
- ii. Letter of invitation to the meeting
- iii. Duly signed attendance register from the meeting

KARONGA DISTRICT COUNCIL

38. An audit of the Karonga District Council for the year ended 30th June, 2015 and 2016 was completed in June and July 2017 respectively. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Failure To Provide Supporting Schedules For The Fixed Asset Balances: K440,388,354.49

Section 24.6.7C of the Local Authorities Accounting and Financial Procedures Manual requires that Local Councils should prepare and present supporting schedules and documents to users of the financial statements.

During the audit for the year ended 30th June 2015 and 30th June 2016, we were not able to obtain sufficient audit evidence on the completeness, accuracy and existence of the individual make-up of the fixed assets balances amounting to K89,355,875.91 and K351,032,478.58 respectively in the Statement of Financial Position for the financial years due to lack of supporting schedules and documents.

(b) Misallocation Of Motor Vehicle Repairs Expenses To Fixed Assets: K5,030,930.00

Section 2.3.14 of the Local Authority Accounting Procedures Manual states that:

Expenditure on the acquisition of a tangible asset, or expenditure which adds to, and not merely maintains, the value of an existing asset, shall be capitalized and be classified as a fixed asset, provided that the fixed asset yields benefits to the LA and the services it provides for a period of more than one year.

It was observed that Karonga District Council capitalised items that are deemed to be repairs and maintenance items for motor vehicles amounting to K5,030,930 in the 2014/2015 financial year.

(c) Fuel Not Recorded In The Tuel Ledger: K33,375,504.40

Section 11.7.1.5 (2004) of the Treasury Instruction recommends that items of stores like fuel should be recorded in the fuel register. Subsequent issuing out should be properly recorded and corresponding motor vehicle log books be updated.

It was observed that the Council did not record in the fuel register, some of the fuel purchased amounting to K19,020,800.00 and K14,354,704.40 for the 2014/2015 and 2015/2016 financial years respectively.

(d) Misallocation Of Expenditure: K11,868,131.35

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.

Contrary to the requirement, it was noted that some payments were charged to wrong accounts. This resulted into misallocations amounting to K11,868,131.35 for the 2014/2015 financial year.

(e) Missing Payment Vouchers: K858,645,201.78

Treasury Instruction (2004) 11.6.1 stipulates that 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, the Council did not provide payment vouchers amounting to K348,385,081.22 and K510,260,120.56 in respect of various expenses in the 2014/2015 and 2015/2016 financial years respectively. As a result, the authenticity of the transactions could not be established.

KASUNGU DISTRICT COUNCIL

39. An audit of the Kasungu District Council for the year ended 30th June, 2015 and 2016 was completed in December, 2017. The audit disclosed some weaknesses in financial control as highlighted the following observations:

(a) Non-remittance Of PAYE To Malawi Revenue Authority: K7,095,549.94

Section 10(1) (j) of the Public Finance Management Act of 2003 states that each controlling officer is responsible for ensuring that, in relation to his Ministry any tax duty, fee, levy or other charge imposed by legislation for which the Ministry responsible is collected promptly and to the fullest extent.

An examination of payment vouchers for the year ended 30th June, 2015 revealed that the municipality did not remit funds amounting to K7,095,549.94 and there was no evidence to show that the funds were indeed remitted to the Malawi Revenue Authority.

(b) Failure To Produce Payment Vouchers For Audit: K7,629,071.84

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 revealed that some payment vouchers totaling K7,629,071.84 for 2015/16 financial year were not produced for audit. It was therefore difficult to ascertain the propriety and validity of the payments made.

(c) Payment Vouchers Without Supporting Documents: K3,231,698.74

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 K3,231,698.74 for 30th June, 2016 respectively were submitted without sufficient supporting documents.

KASUNGU MUNICIPAL COUNCIL

40. An audit of the Kasungu Municipal Council for the year ended 30th June, 2015 and 2016 was completed in June 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Difference Noted In Deceased Estates Opening Balances: K1,158,628.00

During the 2015 annual financial statements, it was noted there were differences between the deceased estates expenditure amount disclosed in the financial statements and the total deceased estates expenditure as per cash book amounting to K1,158,628.00.

As a result, there was no reasonable assurance on the deceased estates expenditure disclosed in the annual financial statements.

(b) LOCAL DEVELOPMENT FUND – Differences Between Cash Book And Annual Financial Statements: K26,541,264.00

Section 13 of the PFMA states that financial reports, financial statements, associated information and accounting procedures required by this act shall be in accordance with generally accepted accounting practice.

During the audit, it was noted that there was a significant difference between the amount presented in the financial statements and the general ledger amounting to K26,541,264.00.

(c) Payment Vouchers Not Produced For Audit Inspection: K8,393,927.00

Treasury Instruction (2004) 11.6.1 stipulates that 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.

In addition, Treasury Instruction number 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

During the audit of 2015/16 annual financial statements, payments amounting to K8,393,927.00 were submitted without source documents as no related payment vouchers were submitted to confirm the accuracy of the transactions.

LILONGWE CITY COUNCIL

41. An audit of the Lilongwe Council for the year ended 30th June 2015 and 2016 was completed in December, 2017. The audit disclosed some weaknesses in financial control as highlighted the following observations:

(a) Payment Vouchers Without Supporting Documents: K31,811,081.00

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 K31,811,018.00 for the year ended 30th June, 2016 were submitted for audit without appropriate supporting documents.

(b) Stores Not Recorded In The Ledger: K2,057,791.32

Treasury Instruction 11.7 of 2004 and Section 20.2 of the Local Authorities Accounting and Financial Management and Procedures Manual, requires all stores purchased to be recorded in the stores registers, and issues signed for by the recipients.

An examination of payment vouchers for the year ended 30th June, 2016 revealed that the office purchased stores amounting to K2,057,791.32 but there was no evidence to show that the purchased stores was recorded in the stores ledger.

LILONGWE DISTRICT COUNCIL

42. An audit of the Lilongwe District Council for the years ended 30th June, 2015 and 2016 was completed in December, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Misallocation Of Expenditure: K5,841,565.00

Treasury Instruction 4.14(1)1 requires that all expenditures should be classified strictly in accordance with estimates. The provisions further require that funds should be spent on the intended activities otherwise Treasury approval must be sought to transfer funds from one expenditure line to another.

An examination of records indicated that some expenditures amounting to K5,841,565.00 were misallocated resulting in under and over expenditure of specific budget lines.

(b) Failure To Produce Payment Vouchers For Audit: K15,289,405.92

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 revealed that some payment vouchers totaling K15,289,405.92 for 2014/15, were not produced for audit. It was therefore difficult to ascertain the propriety and validity of the payments made.

(c) Payment Vouchers Without Supporting Documents: K252,107,298.00

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 K4,286,000.00 for 2014/15 and K247,821,298.07 for 2015/16, did not have supporting documents.

MACHINGA DISTRICT COUNCIL

43. An audit of Machinga District Council for the years ended 30th June, 2015 and 2016 was completed in November, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Payment Vouchers Not Produced For Audit: K51,075,579.36

Treasury instruction 5.9 (a) 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 staff.

A review of cash books and payment vouchers for the year 2014/15 and 2015/16 disclosed that payment vouchers amounting to K168,679,299.51 were not produced for audit as Categorized in Table 10 below:

Table 10: Payment Vouchers Not Produced For Audit-Machinga DC

<u>Account</u>	<u>Amount 2014/15</u> K	<u>Amount 2015/16</u> K	<u>Total</u>
Head Office	1,284,909.00	5,401,840.36	6,686,749.36
Norway Project	23,728,603.00		23,728,603.00
Health ORT	19,186,227.00		19,186,227.00
Education ORT	1,474,000.00		1,474,000.00
	<u>45,673,739.00</u>	<u>5,401,840.36</u>	<u>51,075,579.36</u>

(b) Non-remittance Of PAYE To Malawi Revenue Authority: K108,284,082.00

It was observed that Pay As You Earn (PAYE) deducted from members of staff amounting to K51,435,945.00 and K56,848,137 during the years 2014/15 and 2015/16 respectively was not remitted to Malawi Revenue Authority (MRA) as required by the Taxation Act.

(c) No Evidence About Delivery Of Construction Materials: K35,746,104

During the review of CDF 2014/15 transactions, it was observed that the Council bought construction materials during the year under CDF. There are no evidence attached to payment vouchers on file that the materials worth K35,746,104 were received by beneficiaries (example, recipient signing on the document to acknowledge the receipt of items).

(d) Payment Vouchers Without Supporting Documents: K7,444,450.00

Section 78(1) and (2) of the Public Finance Management Act 2003 states that; a statutory body or a subsidiary shall keep proper accounts and records of its transactions and financial position, and shall do all things necessary to ensure that all payments are correctly made and properly authorized and shall maintain adequate internal control over its assets, or assets in its custody, and over the incurring of liabilities by it.

A statutory body or a subsidiary shall keep the accounts and records referred to in subsection (1) in such a way as to facilitate the preparation of financial statements required by section 79 and enable them to be conveniently and properly audited.

An inspection of payment vouchers for the year ended 30th June, 2016 disclosed that payment vouchers amounting to K7,444,450.00 that were produced for audit had no supporting documents.

(e) Unavailability Of General Receipts: K13,734,080.00

Section 78 (1) and (2) of the Public Finance Management Act 2003 states that; a statutory body or a subsidiary shall keep proper accounts and records of its transactions and financial position, and shall do all things necessary to ensure that all payments are correctly made and properly authorized and shall maintain adequate internal control over its assets, or assets in its custody, and over the incurring of liabilities by it.

A statutory body or a subsidiary shall keep the accounts and records referred to in subsection (1) in such a way as to facilitate the preparation of financial statements required by section 79 and enable them to be conveniently and properly audited.

Contrary to this, general receipts amounting to K13,734,080 were not presented for Audit Inspection

MANGOCHI DISTRICT COUNCIL

44. An audit of the Mangochi District Council for the year ended 30th June, 2015 and 2016 was completed in November, 2017. The audit disclosed some weaknesses in financial control as highlighted the following observations:

(a) Failure To Provide Supporting Documents For The Financial Statements' Figures: K5,896,597,786

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 Financial Statements for the years ended 30th June 2015 and 2016 disclosed that the council had prepared financial statements schedules for all balance sheet items but failed to produce sufficient, relevant and appropriate audit evidence, supporting the balances recorded and presented on the face of the statement of financial statements. A summary of the financial statements figures without supporting schedules is in Table 11 below:

Table 11: Failure to provide Supporting Schedules for Financial Statement Figures-Mangochi DC

<u>Balance item</u>	<u>Amount (K) 2016</u>	<u>Amount (K) 2015</u>
Non-current assets	1,020,299,509	14,836,608
Trade and other receivables	4,160,232	8,367,334
Cash and cash equivalents	1,052,240,758	848,439,451
Trade and other payables	752,867,589	752,560,965
Equity and reserves	1,323,742,911	119,082,429
Total	<u>4,153,310,999.00</u>	<u>1,743,286,787.00</u>

In the absence of supporting schedules, it was difficult to confirm the authenticity of the figures in the financial statements.

(b) Unauthorized Payment Vouchers: K154,806,248.90

Chapter 14 Sub Section 3(f) of the Local Authorities Accounting and Financial Management Procedures states that “payment vouchers must be duly authorized by the Director of Finance (DoF) and counter signed by the District Commissioner (DC).”

It was noted during the audit that in some cases payment vouchers were not authorized or countersigned by the DoF and DC as per the internal control procedures. A summary of unauthorized payment vouchers is in Table 12 below:

Table 12: Unauthorized Payment Vouchers-Mangochi DC

<u>Sector/Project</u>	<u>Amount (K)</u>	
	<u>2015/2016</u>	<u>2014/2015</u>
Head Office	31,330,416.00	-
IRLARD Project	9,479,463.00	
Norway project	-	67,577,380.00
CDF Account	-	20,519,827.00
Education sector	-	18,277,309.00
Health sector	4,919,854.00	2,702,001.00
Totals	<u>36,250,270.00</u>	<u>18,555,979.00</u>

(c) Payment Vouchers Not Produced For Audit: K291,048,812.00

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 for Mangochi District Council revealed that payment vouchers totaling K291,048,812.00 passed for payment were not presented for audit inspection. It was therefore difficult to ascertain the validity and propriety of the expenditure

incurred. A summary of the payment vouchers is presented in Table 13 below:

Table 13: Payment Vouchers Not Produced For Audit-Mangochi DC

Sector/Project	Amount (K)	
	2014/2015	2015/2016
Head Office	22,673,469.00	73,509,860.00
UNICEF	64,348,018.00	9,225,776.00
UNIDP		6,161,997.00
UNFPA	11,230,602.00	9,110,890.00
ICEIDA		70,081,404.00
NORAD		4,905,000.00
SOCAT	5,571,700.00	
LOCAL DEVELOPMENT FUND		1,421,496.00
ASWAP	2,808,600.00	
	190,591,309.00	84,416,423.00
Total		291,048,812.00

(d) Failure To Provide Supporting Documents To The Fixed Assets Additions: K1,005,961,541.00

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 instruction, the Council failed to produce supporting documents for property, plant and equipment amounting to K1,005,961,541.00 which had been presented in the financial statements for the year ended 30th June, 2015 as additions from capital donations.

(e) Failure to Disclose Income Generating Property In The Financial Statements

A review of the financial statements for the year ended 30th June 2016 disclosed that Mangochi district council has property it earns rental income from and housing occupied by the council's employees. However, the properties are not disclosed in the financial statements and no impairment review is carried out on them. This may affect the fixed asset balances as the assets are not presented on the face of the council's financial statement.

MANGOCHI TOWN COUNCIL

45. An audit of Mangochi Town Council for the years ended 30th June, 2014 was completed in October, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Failure to Maintain a Fixed Asset Register: K30,441,000.00

Treasury Instruction 5.32.1 states that all Controlling Officers shall maintain asset registers for all fixed assets bought using public resources in both electronic and hard copies. According to the circular from the Chief Secretary to the Government dated 2nd March, 2010 titled 'Government Physical Assets Register', the asset register should among other things indicate the monetary values of the assets and their condition.

Contrary to the above requirement, the Council failed to maintain an asset register for its non-current assets. As a result it was not possible to verify whether the opening amount of non-current assets in the financial statements amounting to K30,441,000.00 represents items for property, plant and equipment which were in existence as at 30th June 2015 and 2016.

(b) Failure to Conduct Bank Reconciliations

Section 5.7 of the Local Authorities Accounting and Finance Management Procedures Manual stipulates that local authorities should prepare bank reconciliation statements monthly.

A review of council's bank reconciliation for the years ended 30th June 2015 and 2016 disclosed that the council did not prepare bank reconciliations on the following bank accounts; Other Recurrent Transactions, Salaries, Main Account, Bottle Store, Development Account, Local Development Fund.

(c) Payment Vouchers Without Supporting Documents: K8,297,709.00

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 K6,095,284.00 and K2,202,425.41 for 2014/15 and 2015/16 financial years respectively, were submitted for audit without appropriate documents.

(d) Payment Vouchers Not Produced For Audit: K22,192,363.86

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 instruction, the Council failed to produce payment vouchers totaling K22,192,363.86. It was therefore difficult to ascertain

the validity and propriety of the expenditure incurred. A summary of the payment vouchers not presented for audit is in Table 14 below:

Table 14: Payment Vouchers Not produced for Audit-Mangochi Town Council

Sector/Project	Amount (K)	
	2014/2015	2015/2016
Other Recurrent Transactions	5,428,591.96	3,497,722.00
DAHSP	829,340.00	1,115,104.00
DFLA	1,562,200.00	-
Local Development Fund project	5,669,238.18	4,090,167.72
	13,489,370.14	8,702,993.72
Totals		22,192,363.86

(e) Lack Of Internal Procurement Committee

Section 8 of the public procurement act 2003 among other things requires all procuring entities to establish an Internal Procurement Committee (IPC).

It was observed that Mangochi Town Council did not have an Internal Procurement Committee during the two financial years. As such all procurements were not scrutinized by the IPC.

(f) Procurements Made From Single Source: K5,839,529.00

The Public Procurement Act Section 35(1) stipulates that a procuring entity shall request quotations from at least three bidders.

Contrary to the requirement, the council procured items worth K5,839,529.00 for the year ended 30th June 2016 without sourcing at least three quotations. In the circumstance value for money may not be ascertained.

MCHINJI DISTRICT COUNCIL

46. An audit of the Mchinji District Council for the year ended 30th June, 2015 and 2016 was completed in November, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Failure To Provide Supporting Schedules For Financial Statements' Figures: K2, 305,765,893.07

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 instruction, the Council failed to produce schedules and supporting documentation for figures in the financial

statements for the year ended 30th June, 2015 as detailed in Table 15 below:

Table 15: No supporting Schedules for Financial Statement Figures-Mchinji DC

Item	Amount (MK)	
	2014/2015	2015/2016
Work In Progress	454,325,494.46	606,446,684.86
Accounts Payables	41,650,412.56	136,368,253.08
Donor expenditure	344,704,708.35	722,270,339.76

(b) Failure To Produce Payment Vouchers For Audit: K517,385,362.74

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 revealed that some payment vouchers totaling K261,091,653.91 and K256,293,708.83 for the 2014/15 and 2015/16 financial years respectively, were not produced for audit. It was therefore difficult to ascertain the propriety and validity of the payments made.

Table 16: Payment Vouchers Not Produced For Audit Inspection-Mchinji DC

Account	Amount (K)	
	2014/2015	2015/2016
ORT	246,885,863.97	245,587,196.37
CDF	14,205,789.94	10,706,512.46
	261,091,653.91	256,293,708.83
Totals		517,385,362.74

(c) Payment Vouchers Without Supporting Documents: K18,423,713.71

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 K18,423,713.71 for the year ended 30th June 2015 were submitted for audit without appropriate supporting documents. In the absence of the supporting documents, it was difficult to ascertain the validity of the expenditure incurred.

M'MBELWA DISTRICT COUNCIL

47. An audit of M'mbelwa District Council for the years ended 30th June, 2015 and 2016 was completed in December, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Failure To Maintain A Fixed Asset Register: K118,028,361.00

Local Authorities Accounting and Financial Management Procedures Manual, chapter 16.7 state, "Local Authorities shall maintain a Fixed Asset Register that will record details of all the fixed assets owned by the Local Authority. The Fixed Asset Register shall provide particulars of the different fixed assets of the Local Authority across all sectors."

Contrary to the regulation, the Council acquired property, plant and equipment at the values of K62,825,228.00 and K55,203,361.00 during 2014-15 and 2015-16 financial years, respectively without maintaining a fixed asset register in which to substantiate the cost and disposal of these assets at the year end.

(b) Failure To Prepare Bank Reconciliations

Local Authorities Accounting and Financial Management Procedures Manual paragraph 10.1 and Treasury Instructions state that officers authorized to operate bank accounts shall reconcile the bank balance with the cashbook balance at least once a month. An officer other than the one responsible for maintaining the cashbooks shall prepare the bank reconciliation statements.

Management failed to provide the auditors with bank reconciliations for the following accounts for the financial years ending 30th June 2015 and 2016:

Table 17: Failure to prepare Bank Reconciliations-M'mbelwa DC

<u>Account name</u>	<u>Bank name</u>	<u>Account number</u>
ORT	National Bank	624225
Bar Account	FMB	793033333
Rest House Account	National Bank	1001815713
Salaries Account	National Bank	748625
LOCAL DEVELOPMENT FUND Account	NBS	30589072018
DISTRICT DEVELOPMENT FUND Account	National Bank	1240579

(c) Undisclosed Revenue In The Financial Statements –K14,182,832.00

Treasury Instructions 2013, section 9.1 state that the financial reports shall provide sufficient information to assess the Government's overall financial position and condition.

An examination of the financial statements disclosed that revenue amounting to K4,881,259.00 for 2014-15 and K9,301,573.00 for 2015-16 financial years respectively (which are the differences between the annual financial statement figure and the general ledger) was not disclosed in the respective financial statements. This resulted in understatement of revenue on annual financial statements by MWK14,182,832.00.

(d) Locally Generated Revenue Summaries Not Supported By Deposit Slips-K13,238,550.00

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.

During the audit, it was noted that revenue amounting to K8,206,850.00 and K5,031,700.00 for the financial years ending 30th June 2015 and 2016 respectively was not supported by relevant supporting documents such as, deposit slips to confirm that the money was banked. It was therefore difficult to ascertain the completeness and measurement of such revenue.

(e) Employee Related Payments Without Supporting Documents-K682,677,791.43

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.

Management at M'Mbelwa District Council failed to provide the requested supporting documents for the payments amounting to K153,774,143.00 for 2014-15 and K528,903,648.43 for 2015-16 financial years respectively in relation to employee costs.

(f) Non-Remittance Of "Pay As You Earn" (PAYE) Tax-K4,553,508.00

Section 102 of the Taxation Act requires every employer to deduct Pay As You Earn (PAYE) from the remuneration paid to employees in accordance with the personal tax bands and rates and remitted to Malawi Revenue Authority not later than the 14th day from the end of the month during which the tax was deducted.

The Council deducted PAYE from pay-roll amounting to K4,553,508.00 in the 2014-15 financial year without remitting to Malawi Revenue Authority.

MULANJE DISTRICT COUNCIL

48. An audit of Mulanje District Council for the years ended 30th June, 2015 and 2016 was completed in August, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Failure To Maintain A Fixed Asset Register: MK66,796,202.52

Treasury Instructions 5.3 (1-6) and Government Circular Ref. No CS/S/001 dated 2nd March, 2010 from the Chief Secretary to the Government on Government Physical Assets Register, among other things stipulates that “all controlling officers shall maintain asset register for all fixed assets bought using public resources in both electronic and hard copies. The assets register shall conform to the format provided by the Secretary to the Treasury for all classes of fixed assets”.

Contrary to this provision the Council did not produce for audit the required Fixed Asset Register for its Property, Plant and Equipment valued at K66,796,202.52. It was therefore, difficult for the audit team to substantiate the cost of these assets, accumulated depreciation, acquisitions, disposals and carrying amounts at year end.

(b) Failure To Prepare Bank Reconciliations

Local Authorities Accounting and Financial Management Procedures Manual paragraph 10.1 states that “in terms of treasury instruction, officers authorised to operate bank accounts shall reconcile the bank balance with the cashbook balance at least once a month. An officer other than the one responsible for maintaining the cashbooks shall prepare the bank reconciliation statements.”

A review of bank statements, cash books and several accounts owned by the council revealed that the council did not prepare bank reconciliations for nine out of ten operating accounts with National Bank of Malawi and FDH in 2015 financial year. Management could not provide any reasons as to why it failed to reconcile these accounts. A table below has details.

Table 18: Failure To Provide Bank Reconciliations With The Following Accounts-Mulanje DC

<u>Account name</u>	<u>Bank Name</u>	<u>Account number</u>
Poultry Revolving Fund ORT	FDH Account	1022662322001
	National Bank	1000534044
	National Bank	630845
	National Bank	647877
	National Bank	629097
National Aids Commission Account	National Bank	3362213
District Donor Fund Account	National Bank	582298
Main Account	National Bank	644684
Rental Account	National Bank	3673898
	National Bank	648318
	National Bank	481548

(c) Supporting Documents For Locally Generated Revenue Not Produced For Audit Inspection: K4,774,035.

Public Finance Management Act (2003) section 10(c), states that the District Commissioner and Chief Accountant should ensure that all accounts and records relating to the functions and operations of the local authority are properly maintained.

Contrary to the above instruction, management failed to provide relevant documentation as to how locally generated revenue amounting to K4,774,035.00 were collected and recorded.

(d) Liabilities Not Accounted For At Year End: K10,546,583.71

The Local Authorities Accounting and Financial Management Procedures Manual, chapter 18.3 states, “The accrual concept requires that income earned by the Local Authority is credited in the accounting period in which it is due even though cash is not received. Expenditure incurred in earning that income, even if not paid, is included in the same accounting period.

An examination of financial records at the Council revealed that management did not keep proper records of creditors lists amounting to K10,546,583.71 at the end of the 2015/2016 financial year and that it did not recognise creditors in the books of accounts when it had received invoices from suppliers even when payments was not made.

MWANZA DISTRICT COUNCIL

49. An audit of the Accounts of Mwanza District Council for the years ended 30th June, 2015 and 2016 was completed on 30th September, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Failure To Provide Supporting Schedules For Financial Statements’ Figures: K486,628,781

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 instruction, the Council failed to produce schedules and supporting documentation for figures in the financial statements for the year ended 30th June, 2015 as per the details in the following table;

**Table 19: No supporting schedules for Financial Statement Figures-
Mwanza DC**

<u>Balance item</u>	<u>Amount 2015</u>
Non-current assets	183,619,961
Trade and other receivables	2,598,670
Cash and cash equivalents	57,095,760
Trade and other payables	52,081,904
Equity and reserves	186,297,424
Long term liabilities	4,935,062

(b) Payment Vouchers Without Supporting Documents: K2,211,400.00

Treasury Instruction 5.9 (a) of 2004 among other things requires that full supporting documents be retained and filed in such a way that they are easily and readily accessible so as to validate the payment transactions.

Contrarily to the requirement, an examination of payment vouchers for the year ended 30th June 2015 disclosed that relevant supporting documents in respect of donor payments totaling K2,211,400 were not produced for audit review. In the absence of the supporting documents, it was difficult to ascertain whether the expenditure made was a correct charge to public funds.

(c) Payment Vouchers Not Produced For Audit: K33,390,866.00

Section 7 of the Public Audit Act of 2003 as read together with Treasury Instruction number 5.9 (a) empowers the Auditor General and any officer assigned by him to obtain timely unfettered, direct and free access to necessary documentation and information for audit purposes and that all financial and related transactions can be produced immediately upon the request of Ministry of Finance and National Audit Office staff.

It was noted that the council did not make available for audit payment vouchers amounting to K33,390,866.00 made during 2014/15 financial year. It was therefore difficult to ascertain the propriety and validity of such payments.

MZUZU CITY COUNCIL

50. An audit of the Accounts of Mzuzu City Council for the years ended 30th June, 2015 and 2016 was completed in December, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Payment Vouchers Without Supporting Documents: K1,750,000.00

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 K1,750,000.00 for the year ended 30th June 2015 were submitted for audit without appropriate documents.

(b) Unsubstantiated Salary Movements: K2,471,429.31

Section 10(1) (f) of the Public Finance Management Act of 2003 states that each Controlling Officer is responsible for ensuring that, in relation to his Ministry 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.

During the review of employee salaries for the 2015/16 financial year, it was noted that there were some unexplained upward movements that happened in August, September, January and May that could neither be supported nor properly substantiated. In total, the movements totalled K2,471,429.31.

(c) Undercharging Of Customers In REMOP System: K3,529,571.00

Section 10(1) (j) of the Public Finance Management Act of 2003 states that each Controlling Officer is responsible for ensuring that, in relation to his Ministry, any tax, duty, fee, levy or other charge imposed by legislation for which the Ministry is responsible is collected promptly and to the fullest extent.

A review of customer's statements in the REMOP for the 2014/15 financial year revealed that some customers were being undercharged. The undercharge totalled K3,529,571. This may result in the loss of revenue due to undercharging customer accounts

Table 20: undercharging of customers- Mzuzu City Council

<u>Property Code</u>	<u>Property name</u>	<u>Tax Bill per GL</u>	<u>Recalculated amount</u>	<u>Difference (K)</u>
1409670	Magistrate, Chief Residence	2,835,951.16	3,578,247.10	(742,295.94)
1243498	Academy, Mzuzu International	2,717,584.48	2,001,460.08	716,124.40
1497680	University, Mzuzu	2,100,654.04	2,493,655.95	(393,001.91)
1216514	Thindwa, J M	2,041,624.46	2,493,655.95	(452,031.49)
1243769	Technical College, Mzuzu	1,560,689.94	1,969,192.68	(408,502.74)
1133452	Cabinet Regional Administrator	1,253,186.12	1,581,201.28	(328,015.16)
1410835	Foundation, Rafi	682,780.23	895,301.55	(212,521.32)
1132741	Stores, Central Government	617,122.59	778,651.33	(161,528.74)
897143	Lands, Department of	441,473.58	557,027.07	(115,553.49)
			<u>3 529 571</u>	

(d) Failure To Produce Payment Vouchers For Audit: K130,668,477.33

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 revealed that some payment vouchers totaling K113,524,637.33 and K17,143,840.00 for 2014/15 and 2015/16 financial years respectively, were not produced for audit. It was therefore difficult to ascertain the propriety and validity of the payments made.

NENO DISTRICT COUNCIL

51. An audit of the Accounts of Neno District Council for the years ended 30th June, 2015 and 2016 was completed on 30th November, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Non-maintenance Of Bank Reconciliation Statements

Section 5.7 of the Local Authorities Accounting and Finance Management Procedures Manual stipulates that local authorities should prepare bank reconciliation statements monthly.

It was observed that bank reconciliation statements for ORT, Operations and Local Development Fund accounts for the two financial years were not prepared.

(b) Payment Vouchers Without Supporting Documents: K6,047,101.00

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 expenditure records revealed that payment vouchers amounting to K6,047,101.00 (K3,990,800.00 and K2,056,301.00 for 2014/15 and 2015/16 financial years respectively), were submitted for audit without appropriate supporting documents.

(c) Failure To Produce Payment Vouchers For Audit: K417,472,685.37

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 revealed that some payment vouchers totaling K173,159,036.05 and K244,313,649.32 for 2014/15 and 2015/16 financial years respectively, were not produced for audit. It was therefore difficult to ascertain the propriety and validity of the payments made.

(d) Failure To Obtain At Least Three Quotations: K3,537,324.28

The Public Procurement Act 2003 requires that a council should source at least three quotations from different suppliers when procuring goods and services.

It was however noted that Neno District Council did not source at least three from different supplier's quotations for the 2014/15 financial year which led to K3,537,324.28 being spent without sourcing at least three quotations.

NKHATABAY DISTRICT COUNCIL

52. An audit of Ntcheu District Council for the years ended 30th June, 2015 and 2016 was completed on 30th November, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Failure To Prepare Bank Reconciliations.

Section 5.7 of the Local Authorities Accounting and Finance Management Procedures Manual stipulates that local authorities should prepare bank reconciliation statements monthly.

It was observed during the audit that bank reconciliation statements for various accounts were not prepared since management failed to provide the bank reconciliations statements of the following bank accounts:

Table 21: Failure to prepare bank reconciliations-Nkhata-Bay DC

<u>Bank Name</u>	<u>Year</u>	<u>Bank Account number</u>	<u>Comment</u>
NBS Local Revenue Account	2014/2015	30397514017	Reconciliations not prepared throughout the year
FMB Assembly ORT	2014/2015	940998003	Reconciliations not prepared throughout the year
NBS MKTS Local	2015/2016	30397514017	Reconciliations not prepared Revenue Account throughout the year
Assembly ORT	2015/2016	940998003	Reconciliations not prepared throughout the year
MSB Comm Undertaking	2015/2016	1620000057373	Reconciliations not prepared throughout the year

It should be noted that non-preparation of bank reconciliation statements may result in the following circumstances:

- Differences between cash book and bank statements may not be identified.
- Errors made by the bank or cash office may not be detected.
- Fraudulent withdraws from the bank may not be detected.
- Expenditures or receipts made directly by the bank may not be identified.

(b) Revenue Collected But Not Banked: - K1,890,320.00

In terms of Local Authorities Accounting and Financial Management Procedures Manual paragraph 5.2.1, "...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)."

During the audit, it was noted that cash received from the council bar was not being banked intact. In some instances, lesser amounts of cash were banked than collected while in other instances, the whole amount collected was not banked at all. This constituted to a total unbanked money of K1,890,320.00 (K1,155,760.00 in 2014/2015 and K734,560.00 in 2015/2016) which management could not explain.

(c) Non-remittance Of PAYE Deductions To Malawi Revenue Authority: K4,046,754.30

Local Authorities Accounting and Financial Management Procedures Manual Section 21.5 states that, "Deductions through the payroll are a liability to the Local Authority and are held on trust from the date of deduction. The Local Authority shall ensure that all deductions are remitted immediately to appropriate organisations."

It was noted that the council did not remit K8,645,456.40 (K4,046,754.30 and K4,598,702.10 collected in 2014/2015 and 2015/2016 financial years respectively) in PAYE deductions to Malawi Revenue Authority (MRA).

(d) Payment Vouchers Without Supporting Documents: K54,500,000.00

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 expenditure records revealed that payment vouchers amounting to K54,500,000.00 for the 2014/15 financial year were submitted without invoices, quotations and minutes of the Internal Procurement Committee meetings.

NKHOTAKOTA DISTRICT COUNCIL

53. An audit of Nkhota-kota District Council for the years ended 30th June, 2015 and 2016 was completed in November, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Failure To Submit Financial Statements Within Six Months Of The End Of The Financial Year.

Section 42(2) of the Local Government Act (1998) provides among other things, that “The Assembly shall publish not later than six months after the end of each financial year an annual report of its work and of the local government affairs”...Further Section 53(1) of the Local Government Act, (1998) also provides that “The Assembly shall keep proper books of accounts and other records in relation thereto and shall balance its accounts for that year and produce statements of final accounts within six months from the end of each financial year.”

Contrary to these provisions, Nkhota-kota District Council failed to produce and submit its Statements of Final Accounts for both the 2014/2015 and 2015/2016 Financial years within six months from the end of each financial year to the Local Government Finance Committee to forward to the National Audit Office.

(b) Failure To Prepare A Detailed Fixed Asset Register To Support The Value Of Property, Plant And Equipment: K27,457,493.91

According to Section 10(c) of the Public Finance Management Act no 7 of 2003, the District Commissioner and Chief Accountant should ensure that all accounts and records relating to the functions and operations of the local authority are properly maintained. Further, the Local Authorities Accounting and Financial Management Procedures Manual chapter 16.7 states that “Local Authorities shall maintain a Fixed Asset Register that will record details of all the fixed assets owned by the Local Authority. The Fixed Asset Register shall provide particulars of the different fixed assets of the Local Authority across all sectors.”

Contrary to these provisions Nkhota-Kota District Council failed to provide to the audit team a fixed asset register for both the 2014/2015 and 2015/2016 financial years to substantiate the cost, accumulated depreciation, acquisitions, disposals and carrying amounts of assets worth K27,457,493.91.

(c) 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 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, Nkhota-Kota District Council failed to furnish the audit team with bank reconciliations for the following accounts:

Table 22: Failure to prepare bank Reconciliation 2014/2015-Nkhota-Kota DC

<u>Account name</u>	<u>Year</u>	<u>Bank Name</u>	<u>Account number</u>
Operations LOCAL DEVELOPMENT	2014/2015	NBS Bank	70930318017
FUND Account DISTRICT DEVELOPMENT	2014/2015	NBS Bank	70574244011
FUND Account	2014/2015	NBS Bank	70773363011
ORT	2014/2015	NBS Bank	70755435013
CDF	2014/2015	NBS Bank	70774364011
Deceased estates	2014/2015	FDH Bank	1490000064239
Operation Account	2014/2015	FDH Bank	1490000006034
Roads Maintenance Account	2014/2015	FDH Bank	1490000070069
Operations LOCAL DEVELOPMENT	2015/2016	NBS Bank	70930318017
FUND Account DISTRICT DEVELOPMENT	2015/2016	NBS Bank	70574244011
FUND Account	2015/2016	NBS Bank	70773363011
ORT	2015/2016	NBS Bank	70755435013
CDF	2015/2016	NBS Bank	70774364011
Deceased estates	2015/2016	FDH Bank	1490000064239
Development Account	2015/2016	FDH Bank	1490000002737
Water and Sanitation	2015/2016	FDH Bank	1490000156133
Operation Account	2015/2016	FDH Bank	1490000006034
Roads Maintenance Account	2015/2016	FDH Bank	1490000070069

(d) Payment Vouchers Not Produced For Audit Inspection: K158,840,474.89

Treasury Instruction 5.9 (2004) provides that accounting records should be maintained and filed in such a way that they are easily accessed and produced when requested by any authorized persons.

An examination of payment vouchers for Nkhota-Kota District Council revealed that payment vouchers amounting to K158,840,474.89 for the 2014/2015 and 2015/2016 financial years respectively, were not presented for audit inspection. Our audit scope was thus limited making it difficult to verify the authenticity of the expenditure. The table below has the details:

Table 23: Payment Vouchers not produced for audit Inspection- Nkhotakota DC

Account	2014/2015(MK)	2015/2016(MK)
ORT	67,403,603.84	45,139,095.05
CDF	18,416,736.80	10,374,520.00
Donor Funds	8,572,964.20	8,933,555.00
	94,393,304.84	64,447,170.05

(e) Payment Vouchers Without Supporting Documents: K48,728,478.09

Treasury Instructions No. 5.15.1 of 2004 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 K48,728,478.09 for the 2014/2015 and 2015/2016 financial years, respectively were submitted without supporting documents such as invoices, delivery notes, certificates of completion and claims, attached to them. 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. Details are in the table below:

Table 24: Payment Vouchers without Supporting documents- Nkhotakota DC

Account	2014/2015(MK)	2015/2016(MK)
ORT	13,131,945.00	19,062,427.09
CDF	2,841,926.00	13,692,180.00
	15,973,871.00	32,754,607.09

(f) Payment Vouchers Not Co-signed By The Director Of Finance And District Commissioner: K12,369,834.41

Sections 5.5.2 e) and f) of the Revised Local Authority and Financial Management Procedures Manual subsections state that:

(e) The payment voucher shall be sent to the DOF for authorization

(f) The payment voucher shall be sent to the DC/CE for countersigning.

Contrary to this requirement, we noted that payment vouchers amounting to K7,655,669.60 and K4,714,164.81 for the two financial years ended 30th June, 2015 and 2016 respectively were not signed by both the Director of Finance and the District Commissioner as required by the Local Authority and Financial Management Procedures Manual. The authenticity of such payments could therefore not be ascertained.

(g) Failure To Obtain A Minimum Of Three Quotations: K7,285,171.39

Section 35 (1) of the Public Procurement Act, 2003 provides that a Procurement Entity shall request quotations from at least three bidders.

An examination of payment vouchers for the procurement done by the Council revealed that procurements amounting to K2,161,582.10 and K5,123,589.29 for the two financial years ended 30th June, 2015 and 2016 respectively were done without sourcing at least three quotations. It was therefore difficult to verify the value for money of the expenditure.

NSANJE DISTRICT COUNCIL

54. An audit of Nsanje District Council for the years ended 30th June, 2015 and 2016 was completed in September, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Failure To Submit Financial Statements Within Six Months Of The End Of The Financial Year.

Section 42(2) of the Local Government Act (1998) provides among other things, that “The Assembly shall publish not later than six months after the end of each financial year an annual report of its work and of the local government affairs”. Further Section 53(1) of the Local Government Act, (1998) also provides that the Assembly shall keep proper books of accounts and other records in relation thereto and shall balance its accounts for that year and produce statements of final accounts within six months from the end of each financial year.

Contrary to these provisions, Nsanje District Council failed to produce and submit its Statements of Final Accounts for both the 2014/2015 and 2015/2016 Financial years within six months from the end of each financial year to the Local Government Finance Committee to forward to the National Audit Office.

(b) Payment Vouchers Without Supporting Documents: K80,976,758.33

Treasury Instructions 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 and the Auditor General.

An examination of payment vouchers for Nsanje District Council revealed that during the year ended 30th June, 2015 and 2016 payment vouchers amounting to K80,976,758.33 were at the time of audit submitted without supporting documents. Details of the payments vouchers without supporting documents for both Other Recurrent Transactions and Local Development Fund (LDF) for both years are presented in the table below:

**Table 25: Payment Vouchers without Supporting documents:
K80,976,758.33-Nsanje DC**

Account	2014/2015	2015/2016
Local Development Fund	171,500.00	75,234,425.00
Other Recurrent Transactions	668,000.00	4,902,833.33
	839,500.00	80,137,258.33

**(c) Payment Vouchers Not Produced For Audit Inspection:
K119,921,621.06**

Treasury Instruction 5.9 (2004) provides that accounting records should be maintained and filed in such a way that they are easily accessed and produced when requested by any authorized persons.

An examination of payment vouchers for Nsanje District Council revealed that payment vouchers amounting to K119,921,621.06 for the 2014/2015 and 2015/2016 financial years respectively, were not presented for audit inspection. Our audit scope was thus limited making it difficult to verify the authenticity of the expenditure. Details of the payments vouchers not produced for audit inspection for NORAD project, SIVAP, DDF, LDF and Other Recurrent Transactions (ORT) for both years are presented in the table below:

**Table 26: Payment Vouchers not produced for audit Inspection:
K119,921,621.06-Nsanje DC**

Account	<u>2014/2015(MK)</u>	<u>2015/2016(MK)</u>
NORAD	9,947,948.98	
LOCAL DEVELOPMENT FUND	33,991,500.00	
SIVAP		400,000.00
DISTRICT DEVELOPMENT FUND		59,635,498.00
ORT	4,252,715.00	11,693,959.08
	<u>48,192,163.98</u>	<u>71,729,457.08</u>

NTCHEU DISTRICT COUNCIL

55. An audit of Ntcheu District Council for the years ended 30th June, 2015 and 2016 was completed in December, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Failure To Produce Payment Vouchers For Inspection: K543,105,623.40

Section 7 of the Public Audit Act as read together with Treasury Instruction number 5.9 (a) of 2004 empowers the Auditor General and any officer assigned to him to obtain timely unfettered, direct and free access to necessary documentation and information for audit purposes and that all financial and related transactions can be produced immediately upon the request of Ministry of Finance and National Audit Office staff.

It was noted that the Council did not make available payment vouchers for some of the payments amounting to K146,484,598.24 and K396,621,025.16 for 2014/2015 and 2015/16 financial years respectively. Consequently, the inspecting auditors were unable to verify whether the expenditure made was a proper charge to public funds.

(b) Payment Vouchers Without Supporting Documents: K5,197,111.00

Treasury Instruction number 5.9 (a) of 2004 among others requires that full supporting documents are retained and filed in such a way that they are easily and readily accessible so as to validate the payment transactions.

Contrary to the requirement, an examination of payment vouchers disclosed that payment vouchers totaling K5,197,111.00 for 2014/2015 financial year were submitted for audit without relevant supporting documents. In the absence of the supporting documents, it was difficult for the inspecting auditors to ascertain whether the expenditures incurred were accurate and proper charges to public funds.

(c) Fuel Purchases Not Entered In The Ledgers: -K4,462,495.12

Treasury Instruction number 11.7.1.2 of 2004 states that where consumable stores are received in bulk for subsequent issue on small lots, transactions will be entered in a Consumable Store Ledger.

An examination of payment vouchers against fuel ledgers disclosed that the Council purchased fuel worth K4,462,495.12 for 2014/2015 financial year but there was no record to show that the fuel was entered in the fuel ledger. It was, therefore difficult to establish how the fuel was accounted for.

(d) Lack Of Evidence Of Internal Procurement Committee Evaluation: -K10,394,164.50

Section 27(1) of the Public Procurement Act 2003 requires a procuring entity to maintain a record and preserve documentation of the procurement proceedings for a period of 5 years from the contract date. Each significant contract either made through open tendering or competitive bidding should have its own contract file. Well referenced. The file should have but not limited to the following: Bidding documents (Request for quotation, Bid forms, Request for no objection, etc.), Evaluation report, IPC minutes, Local Purchase orders or signed contract, delivery notes and payment documents.

Contrary to the stated requirements, an inspection of procurement records revealed that there was no IPC evaluation on some of the procurements amounting to K10,394,164.50 and K1,170,657.50 for 2014/2015 and 2015/16 financial years respectively.

(e) Maintenance Of Motor Vehicles At Private Garages Without P.V.H.O Approval:-K7,416,688.63

In his circular letter with Reference number HVMC 1006 of 12th August, 2006 addressed to all Controlling Officers and Heads of Departments, The Controller of Plant and Vehicles emphasised that all Government vehicles and plant equipment shall be duly inspected by P.V.H.O (now P.V.H.E.S) prior to repairs by approved franchise dealers/garages and that after repairs the vehicles must be re-inspected by P.V.H.O before delivery to user Ministries/Departments to ensure compliance to specified repairs and thoroughness.

Contrary to the requirement, the Council sent motor vehicles under its charge to private garages for maintenances and repairs amounting to K7,416,688.63 without approval from P.V.H.O (now known as Plant and Vehicle Hire and Engineering Services (P.V.H.E.S) in 2014/15 financial year.

(f) Stores Items Purchases Not Entered In The Ledgers: -K3,401,570.00

Treasury Instruction number 11.7.1.2 of 2004 states that where consumable stores are received in bulk for subsequent issue on small lots, transactions will be entered in a Consumable Store Ledger.

An examination of payment vouchers against stores ledgers for the year 2015/16 disclosed that the Council purchased stores items worth K3,401,570.00 under Constituency Development Fund but there was no record to show that the stores items were entered in the ledger. It was, therefore difficult to establish how the stores items were accounted for.

(g) Failure To Produce Receipt Books For Locally Generated Funds (LGF);-K77,020,386.00

Section 7 of the Public Audit Act as read together with Treasury Instruction number 5.9 (a) of 2004 empowers the Auditor General and any officer assigned to him to obtain timely unfettered, direct and free access to necessary documentation and information for audit purposes and that all financial and related transactions can be produced immediately upon the request of Ministry of Finance and National Audit Office staff.

It was noted that the Council did not make available receipt books for Locally Generated Funds for 2015/16 financial year to support the K77,020,386.00 that was recorded in the cash book to have been collected. Consequently, the inspecting auditors were unable to verify whether all the receipted funds were properly accounted for.

NTCHISI DISTRICT COUNCIL

56. An audit of the Ntchisi District Council for the years ended 30th June, 2015 and 2016 was completed in October, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Understatement Of Donor Funds:- K30,000,000.00

Section 78(1) and (2) of the Public Finance Management Act 2003 states that:

A statutory body or a subsidiary shall keep proper accounts and records of its transactions and financial position, and shall do all things necessary to ensure that all payments are correctly made and properly authorized and shall maintain adequate internal control over its assets, or assets in its custody, and over the incurring of liabilities by it.

A statutory body or a subsidiary shall keep the accounts and records referred to in subsection (I) in such a way as to facilitate the preparation of financial statements required by section 79 and enable them to be conveniently and properly audited.

An inspection of 2014/15 bank statements for the operations account disclosed that the Council received donor funds amounting to K68,000,000.00 but only K38,000,000.00 was recorded in the cash book thereby leaving a balance of K30,000,000.00 being unrecorded. This resulted into understatement of donor funds.

(b) Failure To Produce Payment Vouchers For Inspection: K99,770,360.00

Section 7 of the Public Audit Act as read together with Treasury Instruction number 5.9 (a) of 2004 empowers the Auditor General and any officer assigned to him to obtain timely unfettered, direct and free access to necessary documentation and information for audit purposes and that all financial and related transactions can be produced immediately upon the request of Ministry of Finance and National Audit Office staff.

It was noted that the Council did not make available payment vouchers for some of the payments amounting to K29,149,487.00 and K70,620,873.00 for 2014/15 and 2015/16 financial years respectively, broken down in Table 27 below:

Table 27 Payment Vouchers not presented for audit Inspection- Ntchisi DC

<u>COST CENTRE</u>	<u>2015</u> <u>AMOUNT (K)</u>	<u>2016</u> <u>AMOUNT (K)</u>
District Development Fund	3,373,793.00	14,148,356.00
Local Development Fund	3,465,737.00	10,332,620.00
Other Recurrent Transactions	22,309,957.00	13,076,371.00
NORAD	-	1,600,000.00
Development	-	31,463,526.00
	<u>29,149,487.00</u>	<u>70,620,873.00</u>

(c) Payment Vouchers Without Supporting Documents: K121,813,565.73

Treasury Instruction number 5.9 (a) of 2004 among others requires that full supporting documents are retained and filed in such a way that they are easily and readily accessible so as to validate the payment transactions.

Contrary to the requirement, an examination of payment vouchers disclosed that payment vouchers totaling K42,585,239.73 and K79,228,326.00 for 2014/2015 and 2015/2016 financial years respectively were submitted for audit without relevant supporting documents. In the absence of the supporting documents, it was difficult

for the inspecting auditors to ascertain whether the expenditures incurred were accurate and proper charges to public funds. Below is the breakdown;

Table 28: Payment Vouchers without supporting documents-Ntchisi DC

<u>ACCOUNT</u>	<u>2015 AMOUNT (K)</u>	<u>2016 AMOUNT (K)</u>
District Development Fund	3,399,250.00	1,891,000.00
Procurement	7,883,073.00	-
Local Development Fund	12,828,225.00	436,500.00
Other Recurrent Transactions	18,420,304.73	58,198,329.00
NORAD	54,387.00	-
Development	-	18,702,497.00
	<u>42,585,239.73</u>	<u>79,228,326.00</u>

(d) Fuel Purchases Not Entered In The Ledgers: K25,367,897.00

Treasury Instruction number 11.7.1.2 of 2004 states that where consumable stores are received in bulk for subsequent issue on small lots, transactions will be entered in a Consumable Store Ledger.

An examination of payment vouchers against fuel ledgers disclosed that the Council purchased fuel worth K16,076,196.00 and K9,291,701.00 for 2014/2015 and 2015/2016 financial years respectively but there was no record to show that the fuel was entered in the fuel ledger. It was, therefore difficult to establish how the fuel was accounted for.

(e) Failure To Produce Stores Records For Construction Materials And Working Tools: K5,338,809.00

Treasury Instruction number 11.7.1.2 of 2004 requires the recording of all purchases in the stores ledger for accountability.

It was noted that the Council purchased construction materials and working tools amounting to K5,338,809.00 but there was no record kept as evidence that the materials were accounted for.

PHALOMBE DISTRICT COUNCIL

57. An audit of Phalombe District Council for the year ended 30th June, 2015 and 2016 was completed in October, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Failure To Maintain A Fixed Asset Register: K38,454,412.00

Treasury Instruction 5.32.1 states that all Controlling Officers shall maintain asset registers for all fixed assets bought using public resources

in both electronic and hard copies. According to the circular from the Chief Secretary to the Government dated 2nd March, 2010 titled 'Government Physical Assets Register', the asset register should among other things indicate the monetary values of the assets and their condition.

Contrary to the above requirement, the Council failed to maintain an asset register. As a result it was not possible to verify whether the opening amount of non-current assets in the financial statements amounting to K26,578,954.00 and K38,454,412.00 represents items for property, plant and equipment which were in existence as at 30 June 2015 and 2016 respectively.

(b) Failure To Provide General Receipt Book For Locally Generated Revenue: K32,661,113.00

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 instruction, the Council failed to produce General Receipts for locally generated revenue amounting to K32,661,113.00 for the year 2014/2015. It was therefore difficult to ascertain the completeness and measurement of such revenue.

(c) Failure To Provide Information For Chiefs' Honoraria: K13,843,409.00

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 instruction, the Council failed to produce supporting schedules for chiefs' honorarium amounting to K13,843,409.00 for the year 2014/2015. It was therefore difficult to ascertain the validity of such payments.

(d) Failure To Produce Payment Vouchers For Audit: K46,307,872.00

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 expenditure records revealed that some payment vouchers totaling K38,508,876.00 and K7,798,996.00 for 2014/15 and 2015/16 financial years respectively, were not produced for audit. It was therefore difficult to ascertain the propriety and validity of the payments made. Table 29 below has the breakdown;

**Table 29: Payment Vouchers not produced for audit Inspection-
Phalombe DC**

<u>COST CENTRE</u>	2015	2016
	<u>AMOUNT (K)</u>	<u>AMOUNT (K)</u>
ASWAP	7,373,970.00	3,293,378.00
LOCAL DEVELOPMENT FUND	3,041,130.00	
NORAD	3,637,134.00	
Health Sector ORT	24,456,642.00	
Main Acc ORT	-	4,505,618.00
	<u>38,508,876.00</u>	<u>7,798,996.00</u>

(e) Procurement Without IPC Approval: K81,766,368.00

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).

During our audit of expenditure, it was observed that some procurements amounting to K39,746,798.00 and K42,019,570.00 for 2014/15 and 2015/16 financial years respectively, had no evidence of IPC minutes to indicate that the IPC approved such procurements. Below are the details:

Table 30: Payment Vouchers Not Produced for Audit-Phalombe

<u>COST CENTRE</u>	2015	2016
	<u>AMOUNT (K)</u>	<u>AMOUNT (K)</u>
Local Development Fund	-	8,573,310.00
ASWAP	264,553.00	
District Development Fund	-	10,449,910.00
KFW	632,634.00	
Constituency Development Fund	17,255,574.00	19,418,061.00
NORAD	11,954,103.00	
Education Sector Other		
Recurrent Transactions	9,639,934.00	3,578,289.00
	<u>39,746,798.00</u>	<u>42,019,570.00</u>

(f) Payment Vouchers Without Supporting Documents: K106,998,863.00

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 K90,454,503.00 and K16,544,360.00 for 2014/15 and 2015/16 financial years respectively, were submitted for audit without appropriate supporting documents. The table below has the details.

**Table 31: Payment Vouchers without supporting documents-
Phalombe DC**

COST CENTRE	2015	2016
	AMOUNT (K)	AMOUNT (K)
ASWAP	12,864,553.00	1,377,000.00
District Development Fund	-	5,819,900.00
Education Sector ORT	23,138,320.00	4,437,600.00
Local Development Fund	882,920.00	2,655,860.00
Health Sector Other		
Recurrent Transactions	8,705,834.00	
NORAD	42,880,938.00	
Secretariat ORT	1,981,938.00	2,254,000.00
	90,454,503.00	16,544,360.00

(g) CDF Payments Not Supported By Works Completion Certificates: K16,116,684.00

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 office made payments amounting to K2,445,081.00 and K13,671,603.00 for 2014/15 and 2015/16 financial years respectively, 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.

(h) CDF Materials Not Recorded In The Stores Ledger: K31,665,960.00

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 and Stores records revealed that the office purchased CDF materials amounting to K14,455,710.00 and K17,210,250.00 for 2014/15 and 2015/16 financial years respectively, but there was no evidence to show that the purchased items were recorded in the stores ledger. This made it difficult for the inspecting auditors to ascertain the disposal of the purchased items.

Findings From Investigative Audit (July 2015 To June 2016)

(a) Referred To Drawer Cheques Resulting Into Penalties: K1,575,500.00

Paragraph 5.5.1 of the Local Authorities Accounting and Financial Management Manual states that Local Authorities shall pay for goods and services on the basis that the item being procured is included in the annual estimates and that funds are available. Paragraph 5.5.2 states further that the Director of Finance shall certify availability of budget and cash balance on the expenditure requisition before payment is processed.

The audit established that the above requirement was not followed and a review of the ORT account bank statements revealed that cheque payments amounting to K31,104,472.43 were dishonoured. These dishonoured cheques attracted penalties amounting to K1,575,500.00.

This is a clear breakdown of internal controls over payments since there was no certification of availability of funds. This also emanates from lack of bank reconciliation.

(b) Irregular Expenditure-DFLA Loan Payment: K2,800,000.00

The audit established that the Council paid a total of K2,800,000.00 in respect of DFLA loan repayments from the ORT Account. This was in contravention of Treasury Instruction 4.14.1 which states that specific approval is required before any allocations can be vired or transferred between outputs.

According to the interview we had with the Chief Accountant, the amount stated was used to service a loan which the Council took from DFLA to construct a Lodge. The Council planned that upon completion of the Lodge, the revenues generated from the Lodge would be used to service the loan. The Chief Accountant further stated that the Lodge was not generating enough revenues to service the loan. In view of this, the Council made a decision to service the loan from ORT funds, and a standing order was made to Standard Bank to be deducting an K700,000.00 every month starting from January 2016. These payments were not budgeted for and as such they are irregular.

(c) Payment Vouchers Not Certified By Sector Heads: K13,932,897.00

The Local Authorities Accounting and Financial Management Procedures Manual requires that Sector Heads should certify payments vouchers and requisitions before payments are made from the sectors account.

Contrary to the above requirement, it was noted that payments amounting to K13,932,897.00 were processed without certification by the sector heads. This encourages irregularity in payments and

perpetration of fraud since there is a deliberate disregard of the checks and balances.

(d) Failure To Prepare Bank Reconciliation

Section 5.7.2 (J) of Treasury Instructions of 2004 requires that bank reconciliation statement should be prepared so that errors in the bank statement or cash book are detected.

The audit established that the Council was not preparing monthly bank reconciliations for the period under review. Our enquiry from the Chief Accountant, revealed that automation of the bank reconciliation through IFMIS was the major challenge. However we also noted that though the Council was having problems to prepare the reconciliations through IFMIS, manual reconciliations were also not being prepared.

RUMPHI DISTRICT COUNCIL

58. An audit of Rumph District Council for the year ended 30th June, 2015 and 2016 was completed in November, 2017. The audit disclosed some weaknesses in financial control as highlighted the following observations:

(a) Failure To Maintain A Fixed Asset Register: K69,498,000.00

Treasury Instruction 5.32.1 states that all Controlling Officers shall maintain asset registers for all fixed assets bought using public resources in both electronic and hard copies. According to the circular from the Chief Secretary to the Government dated 2nd March, 2010 titled 'Government Physical Assets Register', the asset register should among other things indicate the monetary values of the assets and their condition.

Contrary to the above requirement, the Council failed to maintain an asset register. As a result it was not possible to verify whether the opening amount of non-current assets in the financial statements amounting to K69,498,000.00 represents items for property, plant and equipment which were in existence as at 30th June 2015 and 2016.

(b) Failure To Provide Supporting Schedules For Financial Statements' Figures: K330,451,084.00

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 instruction, the Council failed to produce schedules and supporting documentation for figures in the financial statements for the year ended 30th June, 2015 as per the details in the following table;

**Table 32: No Supporting Schedules for Financial Statement
Figures-Rumphi DC**

Item	<u>Amount (MK)</u>
Accounts Payables	91,569,831
Property, Plant and Equipment	69,498,523
Cash and Cash Equivalents	81,421,439
Employee Costs	87,961,291

(c) Failure To Produce Payment Vouchers For Audit: K84,025,968.95

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 revealed that some payment vouchers totaling K56,674,314.72 and K27,351,654.23 for 2014/15 and 2015/16 financial years respectively, were not produced for audit. It was therefore difficult to ascertain the propriety and validity of the payments made.

(d) Payment Vouchers Without Supporting Documents: K75,647,148.00

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 K4,956,000.00 and K70,691,148.60 for 2014/15 and 2015/16 financial years respectively, were submitted for audit without appropriate documents.

(e) Ineligible Expenditure On Constituency Development Fund: K3,833,354.90

Paragraph 4 of the Constituency Development Fund (CDF) guidelines revised June 2014 states that all non-project related expenditures and all expenditures having an attribute of accruing personal benefit shall not be drawn against the CDF.

Contrary to the above requirement an examination of payment vouchers revealed that expenditure amounting to K1,244,854.90 and K2,588,500.00 for 2014/15 and 2015/16 financial years respectively, were made on items that are not allowed under CDF guidelines.

(f) Procurement Without IPC Approval: K51,190,883.00

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).

During our audit of expenditure, it was observed that some procurements of CDF materials and services amounting to K27,547,309.00 and K23,643,574.00 for 2014/15 and 2015/16 financial years respectively, were made without IPC scrutiny and approval.

(g) Fuel Not Recorded In The ledger: K12,006,000.00

Treasury Instruction 11.7 of 2004 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.

An examination of payment vouchers for the year ended 30th June, 2015 revealed that the office purchased fuel amounting to K12,006,000.00 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 fuel.

SALIMA DISTRICT COUNCIL

59. An audit of Salima District Council for the year ended 30th June, 2015 and 2016 was completed in November, 2017. The audit disclosed some weaknesses in financial control as highlighted the following observations:

(a) Failure To Maintain A Fixed Asset Register: K254,800,000.00

Treasury Instruction 5.32.1 states that all Controlling Officers shall maintain asset registers for all fixed assets bought using public resources in both electronic and hard copies. According to the circular from the Chief Secretary to the Government dated 2nd March, 2010 titled 'Government Physical Assets Register', the asset register should among other things indicate the monetary values of the assets and their condition.

Contrary to the above requirement, the Council failed to maintain an asset register. As a result it was not possible to verify whether the opening amount of non-current assets in the financial statements amounting to K254,800,000.00 represents items for property, plant and equipment which were in existence as at 30 June 2015 and 2016.

(b) No Quinquennial Valuation Done For 15 Years Leading To Use Of Outdated Rates By The Assembly

Section 10(1) (g) of the Public Finance Management Act of 2003 states that the collection of public moneys is according to approved plans and the Estimates;

A review of the rates used by the assembly in all the categories for the year ending 30th June 2015 revealed that the Assembly was using rates and prices which been put in place for 15 years. The reported revenue may not reflect the activity of the city and this may have led to the retarded growth of the Assembly.

(c) Failure To Provide Payroll for Audit: K103,720,827.00

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 instruction, the Council failed to produce payroll for audit. As a result personal emoluments figures of K103,720,827.00 for 2014/15 financial year were not audited.

(d) Failure To Provide Payment Vouchers For CDF: K20,346,726.49

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 instruction, the Council failed to produce payment vouchers for Constituency Development Fund amounting to K20,346,726.49 for the year 2015/2016. It was therefore difficult to ascertain the validity of such payments.

(e) Failure To Produce Payment Vouchers For Donor Funds: K262,804,550.01

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 revealed that some payment vouchers for donor funds totaling K262,804,550.01 for 2015/16 financial year respectively, were not produced for audit. It was therefore difficult to ascertain the propriety and validity of the payments made.

THYOLO DISTRICT COUNCIL

60. An audit of Thyolo District Council for the years ended 30th June, 2015 and 2016 was completed in September, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Difference Between The Asset Register And The Annual Financial Statements-K60, 492,849.48

Local Authority Accounting Manual section 16.7 and 16.8 states that Local Authorities shall maintain a Fixed Asset Register that will record details of all fixed assets owned by the Local Authority. The Fixed Asset register shall provide particulars of the different fixed assets of the Local Authority across all sectors.

It was noted that the amount disclosed on the annual financial statement, for the year ending 30th June 2015, representing Property, Plant and Equipment did not agree to the asset register balance. Management did not disclose the figures as recorded on fixed ledger which is their primary source of annual financial statements.

As a result, this resulted in overstatement of property, plant and equipment on annual financial statements by K60,492,849.48.

(b) Non-Remittance of “Pay As You Earn” (Paye) Tax-K9,339,180.60

Section 102 of the Taxation Act requires every employer to deduct Pay As You Earn (PAYE) from the remuneration paid to employees in accordance with the personal tax bands and rates and remitted to Malawi Revenue Authority not later than the 14th day from the end of the month during which the tax was deducted.

For the financial year ending 30th June 2016, Thyolo District Council deducted PAYE from pay-roll totaling K9,339,180.60, which was not remitted to Malawi Revenue Authority.

(c) Bank Reconciliation Reports Not Provided For Review

As per Public Finance Management Act section 78 (2):”A statutory body or a subsidiary shall keep the accounts and records referred to in subsection (I) in such a way as to facilitate the preparation of financial statements required by section 79 and enable them to be conveniently and properly audited.

During the performance of audit procedures on the 2014-15 and 2015-16 annual financial statements and upon request of supporting documentation with regards to bank accounts, management of Thyolo District Council did not provide for audit examination all the monthly reconciliations for the 12-month period for the following bank accounts:

**Table 33: Bank Reconciliations not provided for audit Inspection-
Thyolo DC**

<u>Bank</u>	<u>Account name</u>
First Merchant Bank	Deceased Estate
First Merchant Bank	IRLAD Account
Malawi Savings Bank	IGPWP
National Bank of Malawi	Salaries Account
National Bank of Malawi	HIV/AIDS Account

(d) Personal Emoluments Documents Not Provided For Audit Examination-K2,206,631.80

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 audit of Annual Financial Statements personal emoluments documents relating to an amount of K1,820,151.29 for the financial year ending 30th June 2015 were not provided for audit examination upon request. Examples of the requested documents are: pay slips, Net pay schedule, Gross pay schedule, PAYE schedules and other schedules supporting employee cost expenditure.

(e) Non-Provision Of Requested Supporting Evidence Of Short Term Investment-K315,658,454.00

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.

Management of the Council failed to provide supporting documents such as investment certificates to substantiate short term investment which resulted in a limitation on the audit scope, thus it was not possible to verify the short term investment figure of K315,658,454.00.

(f) Other Recurrent Transactions(ORT) Payments Without Supporting Documents-K157,122,326.37

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 K118,687,811.11 for ORT in respect of various expenditure items, K420,000.00 for leave-grant and K38,014,515.26 for capital

expenditure for the financial year ending 30th June, 2016, were submitted for audit without appropriate documents.

(g) Cashbook Amount For Donor Funds Differ From Annual Financial Statements Disclosure- K78,466,612.89

During the audit of 2015-2016 financial year, it was noted that total Donor receipts as per the cashbook did not agree to receipts as per the annual financial statements. The cashbook total receipts amounted to K765,336,905.11 while the actual Donor funding as per the financial statement amounted to K843,803,518.00 giving a difference of K78,466,612.89.

As such, the books of accounts, such as cashbooks could not be relied on to perform further audit procedures. Thus, limitation of scope in as far as donor expenditure was concerned.

(h) Donor Paid Vouchers and Supporting Documents Not Provided For Audit Examination- K263,113,528.37

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.

Contrary to the above requirement, management of the Council failed to provide for audit examination Donor paid vouchers for the transactions amounting to K12,222,420.00 and K173,161,930.29 for the financial years ending 30th June, 2015 and 2016 respectively.

Similarly, relevant supporting documents for some payment vouchers amounting to K77,729,178.08 for 2015-2016 financial year were not provided for audit examination.

(i) Revenue Summaries Not Supported By Deposit Slips-K2,377,100.00

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.

During the audit of 2016 annual financial statements transactions amounting to K2,377,100.00 were selected from the files. However, no bank deposit slips were produced to support the revenue. It was therefore difficult to ascertain the completeness and measurement of such revenue.

(j) Social Cash Transfer Funds Not Disclosed In The Financial Statements -K2,891,358.04

In addition, Local Authority Accounting and Financial Management Procedures Manual chapter 2.2.2, "The Local Authority statement of

accounts shall present fairly the financial position and transaction of the Local Authority. "Fair presentation" will normally be achieved by compliance in all material respect with proper Local Authority accounting practices and the broad accounting concepts outlined."

It was noted that financial statements for the Council did not disclose on the funds it had with financial institutions at year end. The bank statement at the year-end indicated a balance of K46,840,218.04 while the balance as per annual financial statements was K43,948,833.00 giving a difference of K2,891,358.04 undisclosed.

ZOMBA CITY COUNCIL

61. An audit of Zomba City Council for the year ended 30th June, 2015 and 2016 was completed in August, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Failure To Produce Payment Vouchers For Audit: K1,270,275.00

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 expenditure records revealed that payment vouchers for the acquisition of assets totaling K1,270,275.00 for the financial year 2014/15 were not produced for audit. It was, therefore, difficult to ascertain the propriety and validity of the payments made.

(b) Payment Vouchers Without Supporting Documents (Other Recurrent Transactions): K20,911,992.95

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 K20,911,992.95 and K15,816,307.17 relating to Other Recurrent Transactions and Capital Outlay respectively for 2014/15 financial year were made 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 against public funds.

(c) Payment Vouchers For Donor Expenses Not Provided For Audit: K42,150,128.07

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 revealed that payment vouchers for Donor Expenses totaling K42,150,128.07 for the financial year 2014/15 were not produced for audit. It was, therefore, difficult to ascertain the propriety and validity of the payments made.

ZOMBA DISTRICT COUNCIL

62. An audit of Zomba District Council for the year ended 30th June, 2013 and 2014 was completed in August, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Failure To Provide Information For Donor Capital Account: K196,472,102.00

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 instruction, the Council failed to produce supporting schedules for Donor Capital Account amounting to K73,672,762.00 and K122,799,340.00 for 2014/15 and 2015/16 financial years respectively. It was, therefore, difficult to ascertain the status and value of these projects based on their progress/status reports.

(b) Failure To Produce Payment Vouchers For Audit: K27,627,999.52

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 for Donor Capital Account revealed that payment vouchers totaling K19,308,999.52 and K8,319,000.00 for 2014/15 and 2015/16 financial years respectively, were not produced for audit. It was, therefore, difficult to ascertain the propriety and validity of the payments made.

(c) Payment Vouchers Without Supporting documents: K199,918,383.24

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, payment vouchers for Recurrent expenses amounting to K99,985,769.00 and K19,902,353.20 for 2014/15 and 2015/16 financial years respectively and payment vouchers for Donor Capital Account amounting to K80,030,261.04 for the year 2014/2015 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 against public funds.

(d) Procurement Of Goods And Services Without Sourcing At Least Three Quotations: K5,552,192.00

Section 35 (1) of the Public Procurement Act (2003) states that a procuring entity shall request quotations from at least three bidders when using the request for quotation (RFQ) method. Furthermore, 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, goods and services amounting to K5,552,192.00 were procured without sourcing at least three quotations. Therefore, the entity may procure goods and services that are more expensive and/or of lower quality than if at least three quotations were sourced. Value for money may also be compromised.

(e) Failure To Provide Information For Chiefs' Honoraria: K37,008,000.00

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.

Contrary to the above instruction, the Council failed to produce supporting schedules for chiefs' honorarium amounting to K37,008,000.00 for the year 2014/2015. It was, therefore, difficult to ascertain the validity of such payments.

(f) Failure To Provide Supporting Documents For Procurement: K10,738,863.00

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.

Contrary to the above instruction, the Council did not provide supporting documents for procurements amounting to K10,738,863.00 for the financial year 2014/2015. It was, therefore, difficult to ascertain the propriety and validity of the payments made.

PART IV

CONCLUSIONS AND RECOMMENDATION

CONCLUSION

63. There are a number of challenges in the Local Councils that will need urgent attention if the decentralization process was to continue achieving its intended purpose. The major challenge continues to be lack of qualified personnel to maintain accounting books and records and timely production of financial statements. You will notice that a disclaimer of Opinion has been issued to all the Councils. This has been caused mainly by the same problem of not properly maintaining books of accounts used to prepare Financial Statements.

Another deficiency that will need immediate attention is preparation of Fixed Asset Registers in the Councils.

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
 - 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
 - Unauthorised Payments
 - Breach of the provisions of the Public Procurement and Disposal of Public Assets no 41 of 2016 and its related Regulations.
 - Failure to Prepare Bank Reconciliation Statements
 - Non-remittance of PAYE tax to Malawi Revenue Authority
 - Unsupported Payables
64. 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 and timely prepare financial Statements.
- Councils should ensure that financial reporting is in line with the International Public Sector Accounting Standards and relevant financial authorities
- Councils should ensure that the Fixed Asset Register is maintained for accountability of Non-Current assets.
- Councils should ensure that all assets of the Council are valued by professional valuers.
- There is need to develop an effective system of accounting and internal control to institute measures to ensure that the system is operating effectively.
- There is need to improve procurement procedures and systems in all Councils and the Office of the Director of Public Procurement should be requested to assist in training of personnel in procurement procedures in the Councils.
- 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 record management is in place to avoid loss of supporting documents and failure to account for fuel and stores.

June, 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.



MALAWI GOVERNMENT

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

For The Years Ended 30th June, 2015 and 2016

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

Printed by THE GOVERNMENT PRINTER, Lilongwe, Malawi