

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

For The Years Ended 30th June, 2013 and 2014

NATIONAL AUDIT OFFICE

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- CORE VALUES** : Professional competence, behaviour and due care; Objectivity; Independence; Transparency and Accountability, Inclusiveness Creativity and Innovation and Public Intrest oriented.

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

29 December, 2017

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, 2013 and 2014 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 2013 and 2014.

Scope of Audits

The audit of the Councils' financial statements was conducted on all Councils in Malawi for two financial years ended 30th June, 2013 and 2014 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 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. 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 Account for assets in the Financial Statements
- Failure to maintain a Fixed Asset Register
- Differences between the underlying records and the Financial Statements
- Under billing and under banking of revenue
- Poor Stores Management
- Clear flouting 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
- Failure to make Pension deductions on behalf of direct staff in accordance with the Pensions Act, 2004.
- Asset disposals done without following relevant regulations

General Recommendations

- The Councils should be staffed with qualified personnel, who will be able to adequately maintain accounting books and timely prepare financial Statements.
- The Councils should ensure that financial reporting is in line with the International Public Sector Accounting Standards and relevant financial authorities
- The Councils should ensure that the Fixed Asset Register is maintained for accountability of Non-Current assets.
- The 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 payment vouchers 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, private 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 Executives and their staff during the period under audit. The cooperation enabled me to obtain information and documentation for the audit in a timely manner.

PART I

BACKGROUND AND GENERAL INFORMATION

Audit of Public Accounts

1. I am required under Section 184 (1) of the Constitution of the Republic of Malawi of 1994 to audit and report on the public accounts of the Government of Malawi including Councils and to exercise such other powers in relation to the public accounts and accounts of other public authorities and bodies as may be prescribed by an Act of Parliament, in so far as they are compatible with the principal duties of my office.
2. Section 184 (2) of the same Constitution requires me to submit reports at least once a year to the National Assembly through the Minister responsible for Finance. Although Section 15 of the PAA requires me to forward the report to the President and to the Speaker of National Assembly, this is somehow inconsistent with the Constitution as explained in paragraph 1 above. Consultations with the Law Commission and relevant stakeholders have been initiated to have the inconsistency cleared.
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 Opinions

14. For the years ended 30th June 2013 and 2014, the Councils received different opinions as follows:

Auditor's Opinion	30th June, 2013	30th June, 2014
Unqualified	-	-
Qualified 'Except for'	-	-
Adverse	-	-
Disclaimer of Opinion	Balaka Town, Blantyre City, Blantyre District, Chikwawa District, Chiradzulu District, Chitipa District, Dedza District, Dowa District, Karonga District, Kasungu District, Kasungu City Council, Likoma District, Lilongwe District, Luchenza Municipal, Machinga District, Mangochi District, M'mbelwa District, Mchinji District, Mulanje District, Mwanza District, Mzuzu City, Neno District, Nkhatabay District, Nkhotakota District, Nsanje District, Ntcheu District, Ntchisi District, Phalombe District, Rumphi District, Salima District, Thyolo District, Zomba City, Zomba District	Balaka Town, Blantyre City, Blantyre District, Chikwawa District, Chiradzulu District, Chitipa District, Dedza District, Dowa District, Karonga District, Kasungu District, Kasungu City Council, Likoma District, Lilongwe District, Luchenza Municipal, Machinga District, Mangochi District, Mangochi Town, M'mbelwa District, Mchinji District, Mulanje District, Mwanza District, Mzuzu City, Neno District, Nkhatabay District, Nkhotakota District, Nsanje District, Ntcheu District, Ntchisi District, Phalombe District, Rumphi District, Salima District, Thyolo District, Zomba City, Zomba District

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

PART II

STRUCTURE AND OVERALL PERFORMANCE

Financial Management and Administration Policies

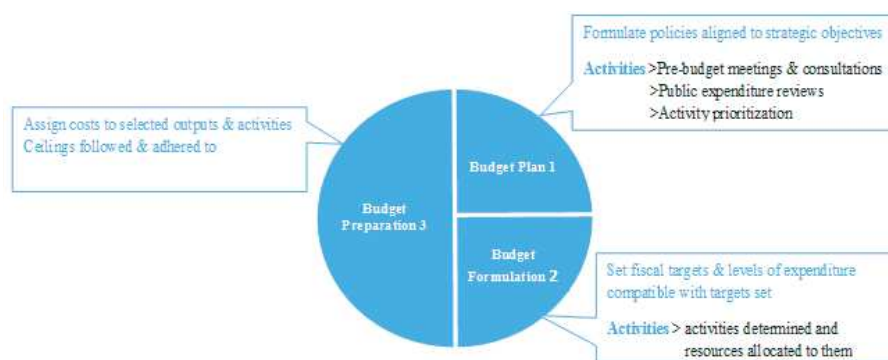
15. The Local Authorities' Financial Management is governed by the Local Authorities Accounting and Financial Management Procedures Manual of May, 2009. However, the following prevailing legal instruments provide the overarching framework:—
- The Constitution of the Republic of Malawi, 1994;
 - The Public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

Budgeting process

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

BUDGETING PROCESS FOR THE COUNCILS

Budgeting Process Local Government



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

Figure 1: Budgeting process for the Councils

17. Budget planning

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

18. Budget Formulation

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

19. Budget Preparation

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



Figure 2: Budget preparation for Councils

Accounting and financial reporting for local authorities

20. The functions of the National Local Government Finance Committee in relation to the accounting and financial reporting for Local Authorities are:

- To receive all estimates of revenue and all budgets of local authorities;
- To prepare a consolidated budget for all local authorities' annual revenue and expenditure estimates in consultation with the Ministry of Finance 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;

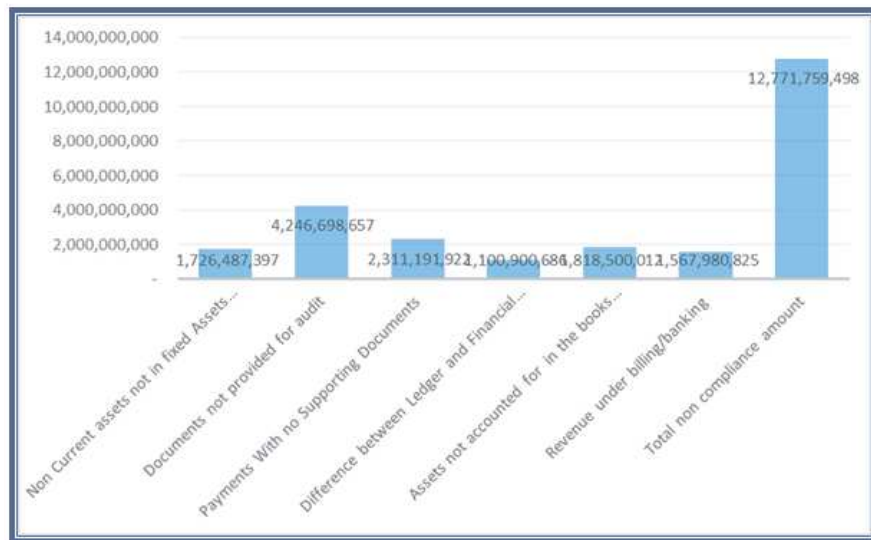


Figure 3: Summary of Major Common Findings in Malawi Kwacha

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.

Payments vouchers without being attached with Supporting Documents

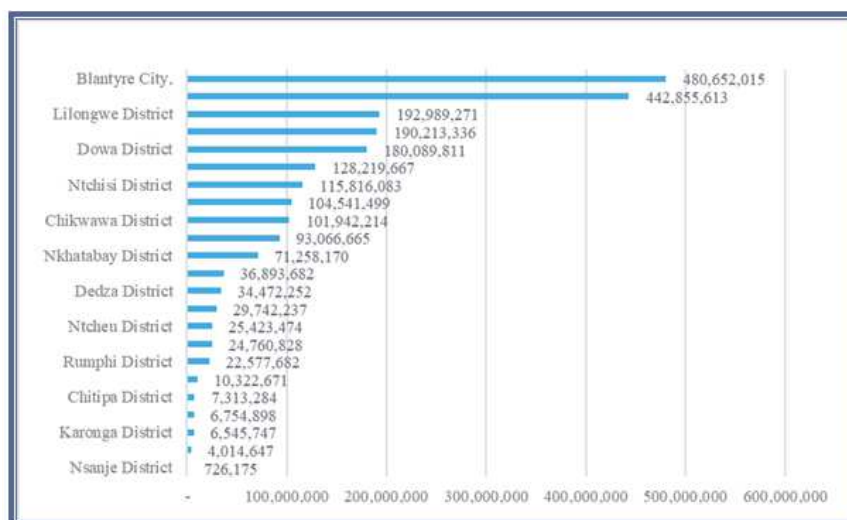


Figure 4: Payments without supporting documents by Council in Malawi Kwacha

The above graph in figure 4 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.

Assets not recorded in the Asset Registers by Councils in (MK)

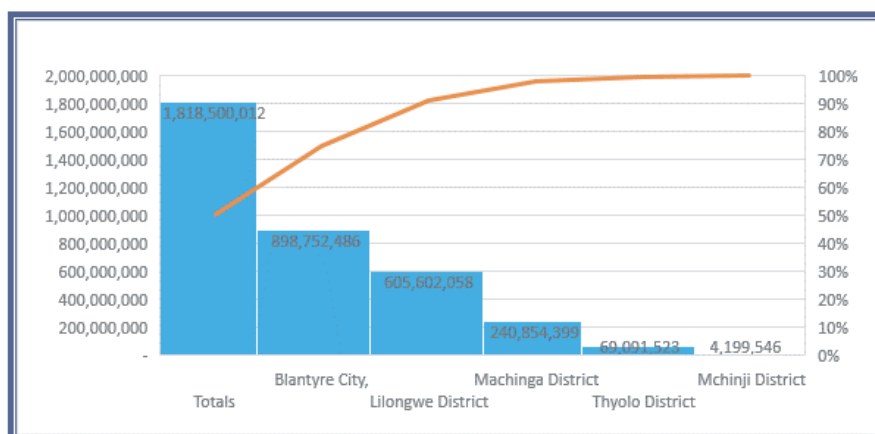


Figure 5: Assets not recorded in the assets registers by Council in Malawi Kwacha

Figure 5 shows the effect of the lapse of controls over assets. The value of assets is indicative of material assets which are at risk of missing if not properly recorded.

Failure to Maintain Fixed Asset Register by Council and Amount

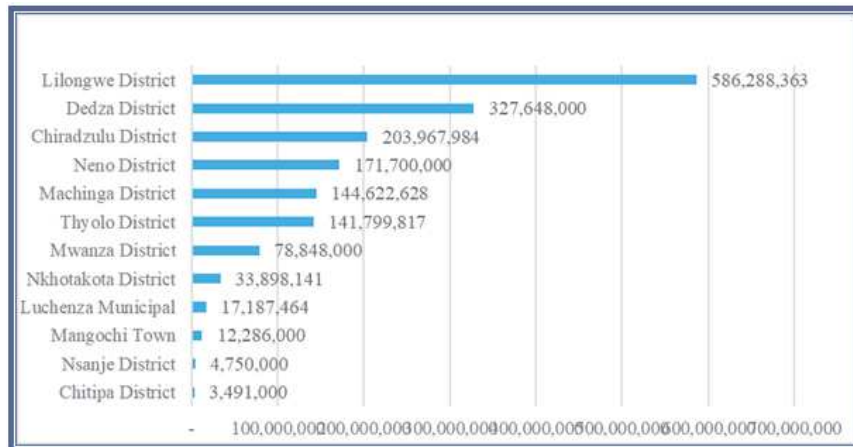


Figure 6: Failure to Maintain fixed asset register by Council in Malawi Kwacha

Figure 6 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.

Differences Between Councils' Ledgers and Financial Reports (in MK)

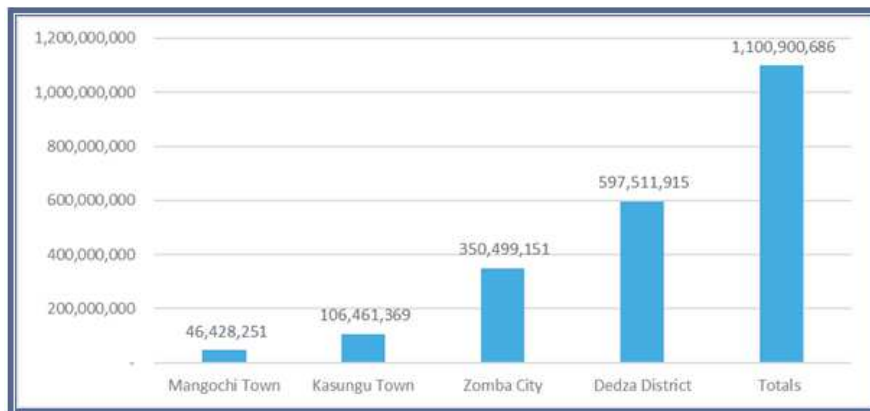


Figure 7: Differences between Councils' Ledgers and Financial Reports (in MK)

The figure above depicts the extent to which each Council's financial statements did not agree with the underlying records such as ledgers, registers and other primary books of accounts of which if material could not give a true and fair view. Therefore, this implies that some information must have been omitted from the financial statements rendering them incomplete thereby misleading their users.

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

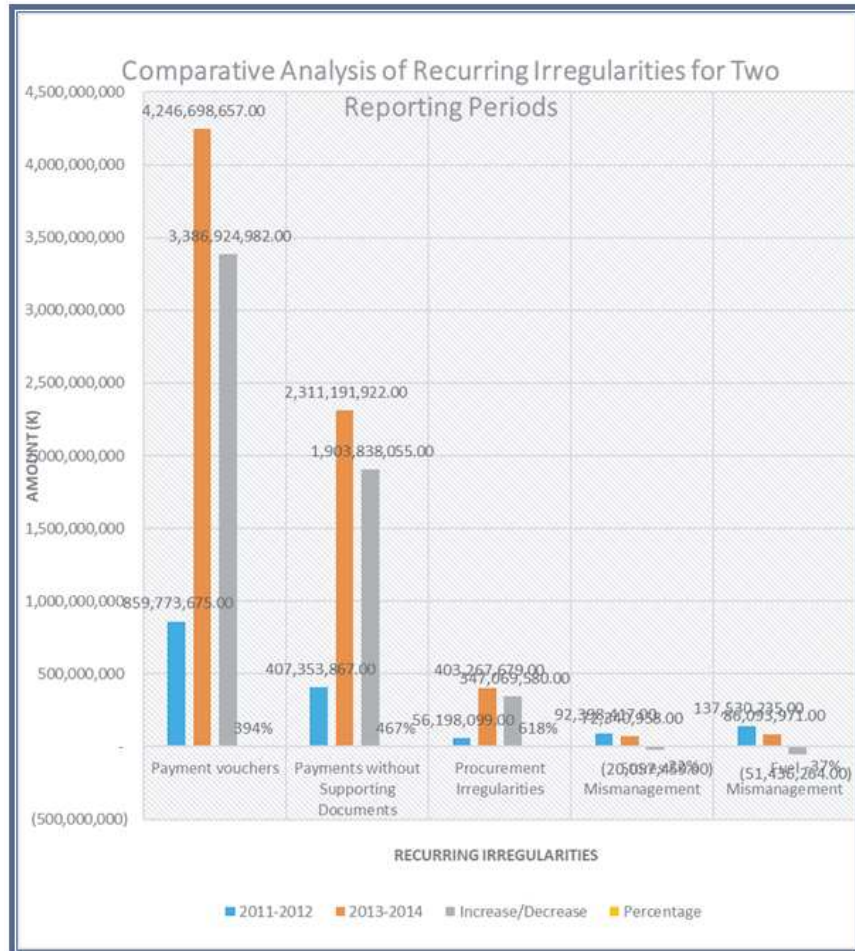


Figure 8: Comparative Analysis of Recurring Irregularities as per Two Auditor General's Reports

The figure above gives a comparative analysis of recurring irregularities in the Councils as reported in two Auditor General's reports of 2011-2012, and 2013-2014. Payment vouchers not presented for audit, Payments without supporting documents, and procurement irregularities registered higher values in 2013-14 report than in 2011-2012. But for fuel and stores management there was a reduction in reported incidences of mismanagement in 2013-2014 report compared to 2011-2012. This represents an increase in efficiency which provides hope for further improvements in financial management in future.

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

COUNCIL/ FINDING	Misallo cation	Payments not Authorized	Stores not Recorded in Ledger	Fuel not Recorded in Register	Un accounted For Debtors	Un- supported Creditors	Mis- Procure ment
Balaka District							13,565,650
Blantyre City					44,038,498		279,807,885
Karonga District	6,132,681		7,874,856	3,822,268			
Lilongwe City				27,516,251			
Lilongwe District							17,086,170
Machinga District				21,917,137			
Mangochi District				23,484,553			
Mangochi Town			64,466,102	11,717,550			
Mwanza District		600,000				92,292,963	
Neno District							6,945,538
Nkhatabay District							62,599,208
Nkhota-kota District				12,172,379			16,268,814
Nsanje District							6,994,414
Ntcheu District		12,691,075					
Phalombe District				12,980,084			
Totals	6,132,681	13,291,075	72,340,958	86,093,971	71,554,749	92,292,963	403,267,679

Recurring Irregularities Analysis

Table 1 above indicates a continued serious problem of records management and lack of sound public financial management in the local councils. The two years' audit conducted disclosed that documents not provided for audit inspection amounted to K4.2bn which is an increase of 394 percent from K859.8m of 2010/11 and 2011/12 financial years. This is a very unfortunate situation since accountability of monies related to such documents may not be properly ascertained. Similarly, payments without supporting documents amounted to K2.3bn which is an increase of 467 percent from K407.4m of 2010/11 and 2011/12 financial years. This again is a serious anomaly as payments may be made for goods and services not received by the councils and completeness and occurrence of the transactions may not be properly ascertained. This may also lead to loss of public monies.

In the two years there was a minor improvement in the areas of stores and fuel management. There was a decrease of 22 and 37 percentages in figures of stores and fuel mismanagement respectively. Though there is this improvement, councils should take cognizance that all public funds are supposed to be properly accounted for in full, any shortfall in the accountability process is completely discouraged.

The Procurement Procedures

23. The Local Authority procurement processes follow the procurement procedures as laid down in the Public Procurement and Disposal of Public Assets no 41 of 2016 and Public Procurement Regulations of 2004. The

Local Authorities have the Internal Procurement Committees which oversee all the procurement processes at the Council.

As per table 1 above, noncompliance with the Public Procurement and Disposal of Public Assets no 41 of 2016 as and its related Regulations was also rife in the two years under review. This amounted to K4.2bn which is an increase of 618 percent from K56.2m of 2010/11 and 2011/12 financial years. With mis-procurement, there is a risk that goods and services procured may be of low quality but at the same time of exorbitant prices which may lead to loss of public funds, and value for money may not be achieved.

PART III

AUDIT RESULTS OF THE COUNCILS

General audit observations

24. An audit of financial statements of the Local Councils was completed in March 2017. Between March 2017 and November 2017, 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 warning. 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 Blantyre City, Lilongwe City, Lilongwe District, Chikhwawa District, Chiradzulu District, Mwanza District, Neno District, Nsanje District, Ntchisi District, Phalombe District, Salima District, Thyolo District, Mulanje District, Zomba District and City, Machinga District, Mangochi District, Balaka District, Ntcheu District, Dedza District, Nkhosakota District, Mchinji District, Nkhatabay District, Rumphu District, Chitipa District, Karonga District, Mzuzu City, M'mbelwa District, Dowa District, Kasungu District, Mwanza District and Likoma District.

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

Accounting for Financial Resources

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 failed to maintain all the necessary books of accounts and records due to low levels of skilled accounting personnel, negligence and laxity. I failed to express an opinion on all financial statements because some Councils completely failed to produce the financial statements and those Councils which managed to produce them, they were no supporting schedules for figures presented in the financial Statements.

There is a continued problem of late submission of financial statements for audit. Most Councils are up to three years in arrear in terms of preparation of financial statements.

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:
- In most council's payment vouchers were without supporting documents
 - Clear flouting of the provisions of the Public Procurement and Disposal of Public Assets no 41 of 2016 and its related Regulations.
 - In most council's payment vouchers and other relevant records were not produced for audit inspection
 - There was Poor Stores Management in most Councils
 - Failure to Prepare Bank Reconciliation Statements
 - Non-remittance of PAYE tax to Malawi Revenue Authority
 - Failure to make Pension deductions on behalf of direct staff in accordance with the Pensions Act, 2004.
 - Misallocation of Expenditure
 - Asset disposals done without following relevant regulations

SPECIFIC AUDIT FINDINGS

BALAKA DISTRICT COUNCIL

30. An audit of Balaka Town Council for the years ended 30th June, 2013 and 2014 was completed in June, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Sector assets not included in the asset register

Section 16.7 of the Local Authority Accounting and Finance Management Procedures Manual 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 however observed that the fixed asset register did not include assets for other sectors such as Health, Education and Agriculture. The non-inclusion of assets from all sectors in the asset register showed that the council would not be able to control and know all its assets.

(b) Council assets without values

Section 53 of Local Government Act states that a Council 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.

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998.

It was observed during the audit that the fixed asset register contains assets that do not have values. Such assets included; Nissan BN 818, Toyota Land Cruiser MG 805Z, Nissan BN 71, 091MG 029, BN 7510, BQ 7510, MG 291U. All these assets are from the Secretariat.

(c) Overdrawn deposits

Section 53 of Local Government Act states that a Council 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.

It was observed that the council had overdrawn deposits amounting to K6,740,122.64 but management could not provide details regarding the overdrawn deposits as shown in the 2012/2013 financial statements.

(d) 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 monthly.

It was observed that bank reconciliation statements for ORT in the sectors of agriculture and Education were not prepared.

(e) Long term liabilities -Loan agreements / contracts could not be supplied for audit

Section 53 of Local Government Act states that a Council 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.

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998.

Balaka District Council was granted a loan from Development Fund for Local Authorities for the purchase of a 3 ton motor vehicle-Mitsubishi Canter. However, the audit team was not provided with a copy of signed loan agreement as such it was difficult to confirm whether agreement terms with Development Fund for Local Authorities were complied with.

(f) Payment Vouchers without supporting documents: K29,742,237.00

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 inspection of payments vouchers disclosed that payments amounting K24,900,957.00 and K4,841,280.00 for the years ended 30th June 2013 and 2014 respectively had no supporting documents. In the absence of the necessary supporting documents, it was difficult to ascertain the genuineness of the payments made.

(g) Payment Vouchers not produced for audit inspection: K60,071,260.71

Treasury Instructions 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.

An inspection of payment vouchers for Balaka District Council revealed that payment vouchers totaling K41,070,872.87 and K19,000,387.84 for the years the ended 30th June 2013 and 2014 respectively, were not presented for audit inspection. It was therefore difficult to ascertain the validity and propriety of the expenditure incurred.

(h) Purchases without sourcing at least 3 quotations: K13,565,650.00

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

During the years under review, it was observed that management did produce evidence that they obtained a minimum of three competitive quotations from different suppliers on payments totaling K13,565,650. Value for money for such procurements could therefore not be verified.

BLANTYRE CITY COUNCIL

31. An audit of Blantyre City Council for the years ended 30th June, 2013 and 2014 was completed on 22nd March, 2017 and 31st May, 2017 respectively. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Non-performance of trade payable supplier accounts Reconciliations.

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 is a recommended best practice for an organization to prepare and review supplier reconciliations to ensure that all suppliers existing as creditors are bonafide creditors. However, it was observed that supplier reconciliations were not being prepared during the whole year under review for the financial years ended 30th June, 2013 and 2014. This is a potential high risk as other suppliers may falsely claim the amount that is fraudulent.

(b) Asset register balance not in agreement with financial statements: K898,752,486.5

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 2012/2013 audit of property, plant and equipment, the audit team noted a difference between the financial statement balance as presented in the statement of financial position and the assets register as follows:

Item	Amount (K)
Property, Plant and Equipment per the financial statements:	5,338,301,000.00
Property, Plant and Equipment per the asset register:	<u>4,439,548,513.00</u>
Difference	<u>898,752,486.52</u>

This difference would distort the true and fair view of the financial statements and this may cast doubt on the completeness of financial information in the financial statements.

(c) Revenue – Under billing of Property rates: K1,391,874,597.00

Section 10(1) (g) of the Public Finance Management Act of 2003 states that: Each Controlling Officer is responsible for ensuring that, in relation to his Ministry-The collection of public moneys is according to approved plans and the Estimates;

The review of billing for rates for 2012/2013 disclosed that billings for rates occurred only in November 2012 for half the billable amount. No subsequent charge has been made for the remaining half of the year. The billings are potentially K1,391 874 597 (being the charge that was made for the half year). This understates the revenues of the council and in the end deny the council the needed resources for its operations in the year.

(d) Failure to bill customers and levy finance charges on outstanding balances K71,199,885.00

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- (j) 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 for 2012/2013 in the IFMIS system revealed that some customers are not being billed and no finance charges were charged on customers whose outstanding balances amounted to K71,199,885.00 as at the time of audit.

(e) Long term liabilities - Loan agreements/contracts not produced for audit: K233,668,000.00

Section 53 of Local Government Act states that a Council 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.

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998.

Loan contracts and agreements for long term liabilities amounting to K233,668,000 were not provided to the audit team for 2012/2013.

(f) Payables – Payment Vouchers not submitted for audit: K15,529,478.32

Section 53 of Local Government Act states that a Council 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.

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998.

Contrary to the provisions payment vouchers amounting to K15,529,478.32 were not provided for audit inspection.

(g) Payment vouchers without supporting documents: K480,652,015.46

Section 53 of Local Government Act states that a Council 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.

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998.

During the audit of 2012/2013 and 2013/2014 it was noted that supporting documents pertaining to some payments were not provided for audit inspection. The breakdown for these payments are given in the table 2 below:

Table 2: Payment Vouchers for Blantyre City Council without supporting documents

Audit Area	2012/13 (K)	2013/14 (K)
Contract document for Security Force Guard services	27,093,240.00	-
Tenders	174,908,794.40	-
Bank Statement (unusual transactions)	16,322,734.48	20,915,019.25
Other Payables-Insurance Policies	149 291 124.38	-
Expenditure	-	241,412,227.33
Totals	<u>218,324,768.88</u>	<u>262,327,246.58</u>

(h) Mis-procurement – Unprocedural award of contract: K28,910,925.00

Section 10(1) (h) of the Public Finance Management Act of 2003 states that:

Each Controlling Officer is responsible for ensuring that, in relation to his Ministry:—

- All expenditure is incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste;
- During the audit of 2012/2013 it was noted the pothole patching and overlays on New Naperi Roads contract of K28,910,925.00 was intentionally awarded to Zozam Civils instead of Wasi Civil Engineering which was the lowest bidder.
- Based on minutes this contract was awarded from fear of overloading Wasi Civil Engineering as Wasi had already been awarded a contract for pothole patching at South end /Manase road. However, the issue of capacity, as an evaluation criteria had not been separately disclosed to the bidders to ensure transparency of procurement.

(i) Failure to provide bid documents for audit inspection and review: K425,942,904.94

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998.

During the audit of procurement and Contract Management for 2013/2014 financial year, the audit team requested the actual bidding documents of the winning bidders from procurement office to enable us perform the evaluation of the bids to come to the same conclusions as per IPC report, but management could not provide the audit team with that information.

(j) Winning bidders' bids not traceable in the register of bids: K250,896,960.11

Section 49(1) of the Public Procurement Regulation of 2004 states that:

A bid received by the procuring entity after the deadline for the submission of bids shall not be opened and shall be returned to the bidder that submitted it.

During the audit of Procurement and Contract Management for 2013/2014 financial year, we requested the documents to confirm that the winning bidder's bidding documents were submitted on time. The audit team inspected the bid opening register and confirmed that the winning bidder's names were not on the register.

(k) Receivables - Unidentified debtor's accounts: K44,038,498.36

Section 53 of Local Government Act states that a Council 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.

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998.

During 2013/2014 financial year, the audit team noted that the council has debtor's accounts on the trade receivable list with no names. The finance charges are properly being charged on the outstanding balances. The following are the accounts with unconfirmed names:

BLANTYRE DISTRICT COUNCIL

32. An audit of Blantyre District Council for the years ended 30th June, 2013 and 2014 was completed on 19th June, 2017. The audit disclosed some weaknesses in financial control as highlighted the following observations:

(i) Payment Vouchers not produced for audit inspection: K83,489,418.73

Treasury Instructions 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.

An inspection of payment vouchers for Blantyre District Council revealed that payment vouchers totaling to K25,348,071.77 and K58,141,346.96 for the years ending 30th June, 2013 and 2014, respectively, were not presented for audit inspection. It was therefore

difficult to ascertain the validity and propriety of the expenditure incurred.

(j) Payment vouchers without supporting documents: K6,754,898.00

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 the financial records disclosed that payment amounting to K5,674,898.00 and K1,080,000.00 for the year ended 30th June 2013 and 2014 respectively its supporting documents were not attached to the payment vouchers for the audit team to verify their availability in support of payments made. In the absence of the supporting documents it was difficult to ascertain whether the payments were a proper charge to public funds.

(k) Failure to remit PAYE taxes to Malawi Revenue Authority: K3,896,840.00

Taxation Act states that PAYE should be remitted to Malawi Revenue Authority (MRA) by the 14th of the following month.

An examination of personnel and payment records revealed that a total of K3,896,840.00, deducted from employees' salaries for the two years ending 30th June, 2013 and 2014 were not remitted to the Malawi Revenue Authority.

CHIKWAWA DISTRICT COUNCIL

33. An audit of Chikwawa District Council for the years ended 30th June, 2013 and 2014 was completed in July, 2017. The audit disclosed some weaknesses in financial control as highlighted the following observations:

(a) Non-availability of title deeds for the property of the Council

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 noted during the audit that management could not provide the title deeds for the buildings and registration certificates of motor vehicles for the council. As such it was difficult to verify the ownership of the assets.

**(b) Payment vouchers not presented for audit review:
K422,220,704.50**

Treasury Instructions 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.

An examination of payment vouchers for the council for the years under review revealed that payment vouchers totaling K422,220,704.50 were not presented for audit review. In absence of these documents, it is not possible to verify the genuineness, validity and classification of these expenses.

**(c) Payment vouchers without supporting documents:
K101,942,214.00**

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 for the council disclosed that payments amounting K101,942,214.00 for the year ended 30th June, 2013 supporting documents were not attached to related payment vouchers at the time of audit. In the absence of the necessary supporting documents, it was difficult to ascertain the genuineness of the payments made.

**(d) Payrolls for direct staff not presented for audit review:
K70,667,262.00**

Treasury Instructions 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.

Contrary to the requirement, the council failed to present payrolls for direct staff amounting to K34,446,370.00 and K36,220,892.00 for the years ended 30th June, 2013 and 2014 respectively. As such the team was unable to ascertain the validity of amount of personal emoluments as reflected in the financial statements.

(e) Failure to Prepare Bank Reconciliations

In terms of Local Authorities Accounting and Financial Management Procedures Manual paragraph 10.1, “in terms of treasury instruction, 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.”

It was noted however that for the years ending 30th June, 2013 and 2014, the council did not prepare bank reconciliations for its Other Recurrent Transactions (ORT) bank account and the Locally Generated revenue. This would create a fertile ground for unauthorised payments to pass through by unidentified fraudulent persons including staff if management could not check them using bank reconciliation statements.

CHIRADZULU DISTRICT COUNCIL

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

(a) Lack of Adequate Details to Support Fixed Asset Register: K203,967,984.00

Section 53 of Local Government Act states that a Council 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. 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 this requirement, the council had in its financial statements property, plant and equipment valued at K203,967,984.00 for the years ending 30th June, 2013 and 2014, but the fixed asset register did not have the minimum disclosure requirements to substantiate the cost of these assets, accumulated depreciation, acquisitions, disposals and carrying amounts.

(b) Failure to Conduct Revaluations of Property, Plant And Equipment

In terms of the Local Authorities Accounting and Financial Management Procedures Manual, chapter 16.5 states, "To ensure that fixed assets are reflected at their fair values in the balance sheet, Local Authorities shall periodically revalue their assets. All categories of fixed assets shall be revalued at five year intervals with the exception of computers which shall be revalued after two years."

It was however noted that for the two years ending 30th June, 2013 and 2014, the revaluation reports to support the values (K203,967,984) disclosed in the Financial Statements were not made available to the audit team.

(c) Failure to Prepare Bank Reconciliations

In terms of Local Authorities Accounting and Financial Management Procedures Manual paragraph 10.1, “in terms of treasury instruction, 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.”

It was noted however that for the two financial years ending 30th June 2013 and 2014, the council did not prepare bank reconciliations for its deceased MSB account, IRLAD and MSB operations Health, Agriculture, LDF and ORT main accounts.

(d) Payment Vouchers with No Supporting Documents: K10,322,671.11

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 these requirements, it was observed that payments amounting to K2,970,699.86 and K7,351,971.25 respectively for the two financial years ending 30th June, 2013 and 2014, supporting documents were not attached to the payment vouchers for the audit team to ascertain the propriety of transactions.

(e) Payment Vouchers Not Presented for Audit: K45,373,584.17

The Public Audit Act Section 7(1) (a) requires that the Auditor General and any officer assigned by him should be given sight and access to the information he deems fit for the discharge of his oversight duties.

Contrary to the requirement of the Act, some payment vouchers which were processed for the two years ending 30th June, 2013 and 30th June, 2014 amounting to K22,206,410.37 and K23,167,173.80 respectively were not presented to the auditors for examination. Consequently, the propriety of the expenditure could not be ascertained.

(f) Failure to Submit Accounts Within Six Months From Year End

Section 42(2) of the Local Government Act, Act 42 of 1998 requires 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.

Contrary to the above requirements Chiradzulu District Council failed to produce and submit their Statements of Final Accounts submit within six months from the end of the financial year for both the year ending 30th June, 2013 and 2014.

CHITIPA DISTRICT COUNCIL

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

(a) Fixed Asset Register Without Adequate Details: K3,491,000.00

In terms of PFMA section 10(c), the District Commissioner and Chief Executive should ensure that all accounts and records relating to the functions and operations of the local authority are properly maintained. 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 this requirement, the council’s fixed asset registers for the years ending 30th June, 2013 and 2014, did not have adequate details to substantiate the cost of these assets, accumulated depreciation, acquisitions, disposals and carrying amounts for all sectors assets.

(b) Failure to Perform Bank Reconciliations

In terms of Local Authorities Accounting and Financial Management Procedures Manual paragraph 10.1, “in terms of treasury instruction, 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.”

It was noted however that for the two financial years ending 30th June 2013 and 2014, the council did not prepare bank reconciliations for its social cash transfer account. Management could not provide any other means to satisfy that reconciliations were being performed.

(c) Unreconciled Difference: K7,600,000.00

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

Contrary to the requirement, the council had a unreconciled differences on the accumulated losses for the years ending 30th June, 2013 and 30th June, 2014 amounting to MK3,400,000.00 and MK4,200,000.00 respectively which were not supported by any adequate documentation.

(d) Payables without Supporting Documents: K7,313,284.00

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 these requirements, it was observed that payables amounting to MK1,951,521.00 and K5,361,763.00 reflected in the financial statements for the two financial years ending 30th June, 2013 and 2014 respectively, were supported by any documentation such as suppliers' invoices, delivery notes etc., for the audit team to verify their existence.

(e) Failure to Submit Accounts Within Six Months From Year End

Section 42(2) of the Local Government Act, Act 42 of 1998 requires 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.

Contrary to the above requirements Chitipa District Council failed to produce and submit their Statements of Final Accounts submit within six months from the end of the financial year for both the year ending 30th June, 2013 and 2014.

DEDZA DISTRICT COUNCIL

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

(a) Failure to Maintain A Fixed Asset Register: K327,648,000.00

Treasury Instructions 5.16.1 requires every Controlling Officer to ensure that internal controls exist with the department or ministry to ensure that all assets are recorded and safeguarded against loss, destruction or unauthorized use. In addition, the circular from the Chief Secretary to the Government dated 2nd March, 2010 titled "Government physical Asset Register", requires the maintenance of an asset register which should among other things indicate the monetary values of the assets and their condition.

Contrary to this requirement, the Council for the years ending 30th June, 2013 and 30th June, 2014 had not maintained a fixed asset register. This made it difficult to determine whether the balance disclosed in the Financial Statements of K327,648,000.00 in 2014 and K282,394,000.00 in 2013 agrees with the Fixed Asset Register.

(b) Differences Between General Ledger and Financial Statements: K597,511,915.00

In terms of PFMA Section 10(1) (f) of the Public Finance Management Act of 2003 states that Controlling officer is responsible for ensuring that, in relation to the 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.

Contrary to the requirement, the council's donor expenditure as per general ledger and financial statements for the years ending 30th June, 2013 and 30th June, 2014 reflected significant differences as shown in table 3 below:

Table 3: General Ledger and Financial Statements differences for Dedza District Council

Year	ORT as per GL	ORT as per AFS	Difference
2013	K890,739,373	K601,639,953	K289,099,420
2014	K333,876,534	K30,464,038	K308,412,495
Total			<u>K597,511,915</u>

c) Payment Vouchers Without Supporting Documents: K34,472,252.50

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 these requirements, it was observed that payments amounting to K30,965,852.50 and K3,506,400.00 respectively for the two financial years ending 30th June, 2013 and 2014, supporting documents such as invoices, delivery notes etc., were not attached to the payment vouchers.

(d) Failure to Prepare Bank Reconciliations

In terms of Local Authorities Accounting and Financial Management Procedures Manual paragraph 10.1, "in terms of treasury instruction, 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.”

It was noted however that for the two financial years ending 30th June 2013 and 2014, the council did not prepare bank reconciliations for its social cash transfer account. Management could not provide any other means to satisfy that reconciliations were being performed.

(e) Failure to Submit of Accounts Within Six Months From Year End

Section 42(2) of the Local Government Act, Act 42 of 1998 requires 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.

Contrary to the above requirements Dedza District Council failed to produce and submit their Statements of Final Accounts submit within six months from the end of the financial year for both the year ending 30th June, 2013 and 2014

DOWA DISTRICT COUNCIL

37. An audit of the Dowa District Council for the years ended 30th June, 2013 and 2014 were completed in June and July 2017 respectively. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Payment Vouchers without supporting documents: K180,089,811.18

In terms of PFMA section 10(c), the District Commissioner and Chief Executive should ensure that all accounts and records relating to the functions and operations of the local authority are properly maintained.

It was noted that supporting documents such as invoices, delivery notes, etc., for transactions amounting to K116,194,754.36 K63,895,056.82 for the two years ending 30th June, 2013 and 2014 respectively were not attached to payment for audit review, as such it was not possible to ascertain the propriety of the expenditure.

KARONGA DISTRICT COUNCIL

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

(a) Fuel register record not produced for audit of: K3,822,268.00

Section 11.7.1.5 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 noted during the audit that for the two years ended 30th June, 2013 and 2014, the Council did not produce records of the fuel purchased totaling K2,785,428.00 and K1,036,840.00 respectively.

(b) Office supplies not recorded in the stores ledger: K7,874,856.82

Section 11.7.1.5 of the Treasury Instruction recommends that office supplies once purchased should be recorded in stores ledger. Subsequent issuing out should be properly recorded.

It was noted during the audit that for the two years ended 30th June, 2013 and 2014, the Council did not record in the stores ledger office supplies totaling K6,085,527.70 and K1,789,329.12 respectively.

(c) Misallocation of expenses: K6,132,681.20

Section 10(1)(e) of Public Finance Management Act says each Controlling Officer is responsible for ensuring that, all expenditure, including salaries and other personal emoluments, is properly authorized and applied to the specific purposes for which it is appropriated;

From our sample of expenditures, it was observed that for the two years ending 30th June, 2013 and 2014, payments totaling K4,272,579.20 and K1,860,102.00 respectively charged to wrong budget lines.

(d) Payment Vouchers without supporting documents: K6,545,747.70

Local Authorities Accounting and Financial Management Manual section 8.3.3 (e) requires that for all expenses the Council should prepare payment vouchers and attach them to respective supporting documents in terms of supplier invoices, receipts or signed allowance claim sheets.

An examination of payment vouchers revealed that payment vouchers totaling K6,545,747.70 were processed and passed for payment during the year ended 30th June, 2013 without supporting documents.

KASUNGU MUNICIPAL COUNCIL

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

(a) Property rates – Variance between the GL and the AFS: K106,461,368.89

In terms of the section 22.3.1 (General Ledger), of the procedure manual, the general ledger is the main book of accounts in which transactions are recorded from all other books of accounts are posted on a monthly basis. Local Authorities shall maintain nominal accounts in the General Ledger.

Nominal accounts record revenue and expenditure items for the purpose of preparing the income and expenditure account. All nominal accounts shall be closed and transferred to the income and expenditure account in the General Ledger at the end of the year by a journal. It was noted that for the year ended 30th June, 2013, there was a variance between the General Ledger and Annual Financial Statements on property rates as shown below.

Table 4: Difference between Financial Statements and General Ledger for Kasungu Municipal Council

Description	Amount
General ledger:	258,610,251.89
AFS:	152,148,883.00
Variance	106,461,368.89

(b) Payment vouchers without supporting documentation: K4,014,647.56

Section 53 of The Local Government Act, 1998 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, further, the Assembly shall submit the final accounts to the Local Government Finance Committee which shall forward a copy to the Auditor General.

An examination of the financial records disclosed that payment totaling K4,014,647.56 for the year ended 30th June 2013 the related supporting documents such as invoices, delivery notes etc., were not attached to the payment vouchers for the audit team to ascertain the propriety of payments made and it was difficult to ascertain whether the payments were a proper charge to public funds.

LILONGWE CITY COUNCIL

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

(a) Revenue – Market fees and parking fees books not reconciled with the security document register: K1,042,575.00

Section 53 of Local Government Act states that a Council 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.

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998.

An inspection of the security document register in the IFMIS to ascertain if all the receipt books collected by various revenue collectors had been reconciled as evidence that the revenue was banked, revealed that most books were not reconciled bringing into question the accountability of that revenue.

(b) Expenditure – Payment Vouchers not provided for audit K336,632,832.78

Section 53 of The Local Government Act, 1998 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, further, the Assembly shall submit the final accounts to the Local Government Finance Committee which shall forward a copy to the Auditor General.

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998.

An examination of the financial records disclosed that payment vouchers totaling K336,632,832.78 for the year ended 30th June 2013 and 2014 were not produced for audit inspection.

(c) Operating Expenditure – Failure to provide minutes of IPC meetings: K357,872,439.10

Section 18 (1) g and k of the Public Procurement Regulation of 2004 states that:

The general functions of the Internal Procurement Committees in the Ministries, Departments and parastatal organizations shall be, in accordance with the functions set forth in section 8 (3) of the Act, and on the basis of preparatory work by the concerned Procurement Unit established pursuant to section 10 of the Act, and regulation 20 the following—

(g) Comparison and evaluation of bids and selection of the winning bid;

(k) Maintaining minutes of the Internal Procurement Committee meetings.

During the audit of expenditure, we were provided with payment vouchers but no minutes of IPC meeting was provided to confirm that the IPC evaluated this procurement and recommended/selected the winning bidder for the CEO to appoint.

(d) Trade Receivables -Unidentified debtor's accounts on the debtors lists K27,516,250.95

Local Authorities Accounting and Financial Management Procedures Manual Chapter 17.4.1 state that, when an invoice amount is not collectible due to the reasons that the owner cannot be traced this has to be treated as a Bad debt and (2) Bad debts have to be written off by seeking proper approval from the authorities (National Local Government Finance Committee) to write of the debt.

A confirmation on the debtors list on the existence of debtors, we noted that the assembly has debtor's lists with names which are unknown but with outstanding balances amounting to K2,766,893.98 and K24,749,356.97 for the years ended 30 June 2013 and 2014 respectively. Details are as follows:

Table 5: Trade Receivables -Unidentified debtor's accounts on the debtors lists

Account No	Plot No	Details	Owner	Amount K
2012/2013				
4323050000	43/2/30	House	0	297,437.64
47410990000	47/4/10	House	0	851,394.96
102520000	1/252	House	unknown	752,550.09
105760000	1/576	House	unknown	865,511.29
Sub total				<u>2,766,893.98</u>
2013/2014				
1000640200	10/064	House	unknown	7,688,771.94
1001470000	10//147	House	unknown	4,422,883.47
100390100	10/397	House	unknown	4,879,943.94
1004040000	10/404	House	unknown	4,353,511.88
1200170000	17-Dec	House	unknown	3,404,245.74
Sub total				<u>24,749,356.97</u>
GRAND TOTAL				<u>27,516,250.95</u>

(e) Trade Receivables - No Debtors Reconciliation for trade receivables K9.9 Billion

Local Authorities Accounting and Financial Management Procedures Manual Chapter 17.3 state that, at the end of each month the director of finance, shall post total invoices and total receipts to the debtors control account supported by a reconciliation schedule of debtors as extracted from the debtor's ledger

A review of the debtor's reconciliation report for the years ended 30 June 2013 and 2014 revealed that the council had outstanding city rates amounting to K9.9 billion for which reconciliation was not done. There was no evidence that efforts were made to recover the outstanding amounts.

(f) Trade Receivables - More than one Debtor appearing on the same plot number K39,432,170.14

Local Authorities Accounting and Financial Management Procedures Manual Chapter 17.3 state that, at the end of each month the director of finance, shall post total invoices and total receipts to the debtors control account supported by a reconciliation schedule of debtors as extracted from the debtor's ledger.

An assessment of the debtors list for the period ending June 2013 and 2014 revealed that the debtors list had one plot number with different clients. Samples of the clients for the year 2013 and 2014 amounting to K5,669,781.06 and K33,762,389.08 respectively, as summarized in the table below:

Table 6: More than one Debtor appearing on the same plot number for Lilongwe City Council

2012/2013

Client	Plot No	Amount (K)
A.M.Mpira	28/56	3,238,143.72
F.R.Chimalizeni	28/56	776,491.82
E.Matapa	24/01/1930	210, 650.09
B.M.Mbwinja	24/01/1930	403, 129.51
A.Lupiya	22/02/1930	93,034.42
A.Nyirenda	22/02/1930	923,879.34
A.Mwakigonja	22/02/1930	638,231.76
Total		<u>5,669,781.06</u>

2013/2014

Account No	Client	Plot No	Amount (K)
4748030000	Ted Kalebe	47/4/80	3,178,820.21
4748050000	Banda	47/4/80	5,092,598.51
4748060000	Mr.Chirwa	47/4/80	3,756,293.51
4748300000	R.J.Chimbalamnga	47/4/83	7,087,133.42
4748370000	Miss.V.Jeffrey	47/4/83	4,600,604.64
4748500000	Mrs. Migachi	47/4/85	5,408,712.28
4748590000	Mr.R.Zimba	47/4/85	4,638,226.51
Total			<u>33,762,389.08</u>

(g) Receivables - Development plot charges not collected for allocated plots K303,778,616.94

According to part 1 section 3 (5) for the government procedures on administration and management of government land with city assembly, requires withdraw of plots offer If not paid for after 6 months.

An Examination of plot allocation records revealed that the council did not collect development charges amounting to K306,558,308.94 on 244 plots issued during the period dating from far back in 2011 despite the lapse of the 6 months grace period as per the above provision.

(h) Cash and Bank – Failure to prepare monthly bank reconciliations

Section 7(1)(b) of Public Audit Act of 2003 states that ‘‘The Auditor General or a person authorised by him shall have full access at all reasonable time to all documents, books and accounts, public funds, public securities, Government contracts and books and accounts relating thereto and subject to audit, and to any place where they are kept.

It was noted that the council did not prepare bank reconciliations during the years under review. Management could not provide any other means to satisfy that reconciliations were being performed.

(i) Procurement– Quotation register and actual quotations not produced for audit.

Section 53 of Local Government Act states that a Council 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.

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section54 of Local Government Act of 1998.

However, a review of procurement records disclosed did not maintain quotations as required by the Public procurement regulations. Further the council failed to present for audit comparative quotations for procurements worth K26,568,905.97 and 21,239,606.36 for 2012/13 and 2013/14 financial years respectively. As such the audit team was not able to ascertain that value for money was achieved in the procurements in question.

LILONGWE DISTRICT COUNCIL

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

(a) Un-authorized procurements: K17,086,170.00

In terms of Local Authorities Accounting and Financial Management Procedures Manual chapter 16.2.1 states that the following procedures should be followed to purchase fixed assets;

- Local Assembly should be proposed purchase of fixed assets in line with approved budget and cash flow position. National Local Government Finance Committee (NLGFC) should technically evaluate the proposal relative to the Local Authority's
- The Finance Committee shall submit its recommendation to the Full Assembly for approval.
- Once approval is granted, the Local Authority shall proceed with the purchase guided by Internal Procurement Committee (IPC), procurement procedures of PPA 2003 and procurement instructions of the Office of Director of Public Procurement (ODPP).

It was noted during the audit that the council purchased office equipment and motor vehicles to the value of K10,686,170.00 and K6,400,000.00 respectively. We did not receive proof of approval to proceed with the purchase from the Full Assembly or purchase invoices and deliver notes as audit evidence that these assets were actually purchased. We did not also receive proof that procurement procedures of PPA 2003 and procurement instructions of the Office of Director of Public Procurement (ODPP) were complied with during the acquisition of these assets.

(b) Disposal of Property, plant and equipment not authorised: K605,602 058.00

In terms of Local Authorities Accounting and Financial Management Procedures Manual chapter 16.6.2 states that the following procedures should be followed when disposing of fixed assets;

- Management shall pass a resolution at its meeting approving the sale of the asset in question. The Board Survey shall be commissioned to inspect the assets to be disposed of. The Board of Survey will come up with the certification of the assets to be disposed of.
- The Local Authority shall write NLGFC for consideration of the proposed board off.
- The Finance Committee of the Local Assembly shall approve the asset disposal proposal with the exception of land which will have to be approved by the Full Assembly.
- The assets shall be disposed of by competitive bidding through independent auctioneers.

It was noted that the council sold houses with a net book value of K605,602,4058.00 during the year. However, the following documents were not received to support the sale that it was a valid and above the board sale;

- Management meeting minutes with resolution to sale the houses.
- Board Survey certifying houses sold.
- Approval from the NLGFC to sale the houses.
- Full Assembly approval
- Proof that the houses were sold through the auction.
- Contract of sale for the houses.

(c) Failure to Maintain a Fixed Asset Register: K586,288,363

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.”

The Local Authority does not maintain a Fixed Asset Register and it is not complying with the Local Authorities Accounting and Financial Management Procedures Manual. The Fixed Assets not backed up by a Fixed Asset Register but appearing in the Financial Statement for the 2012/2013 financial year totaled K586,288,363.00.

(d) Cash and cash equivalents- Bank reconciliations not prepared

In terms of Local Authorities Accounting and Financial Management Procedures Manual paragraph 10.1, “in terms of treasury instruction, 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.”

It was noted that the council did not prepare bank reconciliations for its nine operating accounts in 2013 and 2014 financial year ends. Management could not provide any other means to satisfy that reconciliations were being performed.

**(e) Payment Vouchers without supporting documents
K192,989,271.04**

The Council shall keep the accounts and records in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998.

An examination of the financial records disclosed that payment totaling K192,989,271.04 for the year ended 30th June 2013 its supporting documents were not attached to the payment vouchers for the audit team to verify the propriety of payments made. In the absence of the supporting documents it was difficult to ascertain whether the payments were properly charged to public funds.

(f) No payslips system in place

In terms of Local Authority Accounting and Financial Management Procedures Manual chapter 21.1, a Local Authority shall maintain a payroll system to properly manage its human resource. The payroll shall show details of employees’ earnings and their deductions as follows:

- a. Name of employee
- b. Payroll number
- c. Earnings
- d. Deductions
- e. Net pay

During the performance of our audit procedures on Salaries – Direct staff, we noted that the council has no pay slips system in place. This placed hindrance on our performance of procedures for the existence and valuation of the salaries paid to the council’s employees. We could therefore not perform alternative procedures to ensure that employee costs actually occurred, were complete, were recorded in the correct financial year and are accurate.

**(g) Differences noted between the payroll and general ledger:
K4,488,502.26**

In terms of Local Authority Accounting and Financial Management Procedures Manual section 1.3.5 sets roles of the director of finance.

Some of the specific duties and responsibilities of the director of finance includes maintenance of proper books of accounts of the Local Authority and preparation of monthly financial reports and annual financial statements.

During the performance of our audit procedures on Salaries – Direct staff, the following differences were noted between the provided payroll and the general ledger:

**Table 7: Differences between Payroll and General Ledger:
Lilongwe District Council**

Total direct employees’ salaries – AFS	Total direct employees’ salaries–payroll	Difference
32,463,826.00	27,975,323.74	4,488,502.26

LUCHENZA MUNICIPAL COUNCIL

42. An audit of the financial statements for Luchenza Municipal Council for the year ended 30th June, 2013 and 2014 was completed in July 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Property, plant and equipment- Lack of detailed Fixed Asset Register: K17,187,464

Chapter 16.7 of the Local Authorities Accounting and Financial Management Procedures Manual, 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.”

The Fixed Asset Register does not comply with the minimum requirements. The Fixed Asset Register provided by the Local Authority has the following information:

- Department where the asset belongs
- Asset type
- Number of similar items in the department
- Date purchased for some assets
- Serial number where applicable
- Insurance status
- Condition of asset
- Source of funds used to secure the asset

Based on the information provided in the Local Authority's Fixed Asset Register, we could not agree cost of assets, accumulated depreciation and carrying amounts in the annual financial statements to the Fixed Asset Register.

Consequently, we were unable to obtain sufficient appropriate evidence to audit property, plant and equipment presented in the Financial Statements at K17,187,464.00 for both years ending 30th June, 2013 and 2014.

(b) Bank reconciliations not provided

In terms of the Local Authorities Accounting and Financial Management Procedures Manual, chapter 2.1.16 states, "Local authorities shall retain accounting records and documents for periods as stipulated in the Treasury Instructions. Upon expiry of the retention period, the records shall either be destroyed or sent to the National Archives Office. The destruction of accounting records will be carried out in the presence of at least three officers who shall include the police and National Audit Office. Destruction certificates must be signed by all officers witnessing the destruction and filed for reference.

During the performance of our audit procedures on cash and cash equivalents, we requested bank reconciliations from management and these were not availed to us. We therefore could not perform all relevant audit procedures.

(c) Failure to service Long term loans

In terms of Public Finance Management Act 2003 Section 55. Every loan under this Part shall be in the name of the Republic of Malawi, and every document required to be signed evidencing the terms of the loan shall be executed by the Minister or by any other person authorized in writing by the Minister.

It was noted that Luchenza Municipal Council obtained a loan from the Development Fund of Local Authorities for K7,991,000.00. The loan incurs interest of 26% per annum and it was supposed to be paid in 60 equal installments from 30 January 2014. However, the council had not been able to service the loan and interest had been accruing on the capital balance.

This interest had not been credited to the loan account nor debited to finance charges by the Local Authority and this has resulted on understatement of loan balance and finance charges at year end. There is also no loan register and ledger maintained by the council.

(d) Renting out property without formal contracts

In terms of Local Authorities Accounting and Financial Management Procedures Manual 2.2.2, "The Local Authority statement of accounts

shall present fairly the financial position and transactions of the Local Authority.”

It was noted that the municipality rents some of its buildings to external parties and collect rental income at every month end. In terms of good cooperate governance, the council enters into long term agreements and these should be recorded and signed by all the affected parties for enforceability in the future.

However, it was noted that the council did not have any written and signed contracts for the properties which are being rented out. In case of a dispute it will be difficult for the municipality to claim outstanding amounts.

(e) Un-supported Other Income (DFLA): K7,991,000.00

Section 2.2.2 of the Local Authorities Accounting and Financial Management Procedures Manual states that the Local Authority statement of accounts shall present fairly the financial position and transactions of the Local Authority. For financial statements to be fair they have to represent the true face of transactions which took place during a period of time.

It was noted that other income (Development Fund for Local Authorities) amounting to K7,991,000.00 had been recognized in the annual financial statements. However, the audit team could not obtain supporting evidence of this other income earned or received by the council during the year.

(f) Non-remittance of Pay As You Earn tax to Malawi Revenue Authority: K721,699.00

In terms of the Local Authorities Accounting and Financial Management Procedures Manual, chapter 21.5 states, “The Local Authority shall ensure that all deductions are remitted immediately to appropriate organisations.”

It was noted that Pay as You Earn (PAYE) deductions from employee salaries are not being remitted immediately to Malawi Revenue Authority (MRA). PAYE was last remitted in 2012 financial year end and a total of K721 699.00 has been outstanding up to the year under review. This fact has not been disclosed in the annual financial statements as non-compliance with laws and regulation.

MACHINGA DISTRICT COUNCIL

43. An audit of Machinga District Council for the years ended 30th June, 2013 and 2014 was completed in July 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Non-existence of a fixed asset register K144,622,628.00

Chapter 16.7 of the Local Authorities Accounting and Financial Management Procedures Manual 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.

It was observed during the audit that the Machinga District Council had no fixed asset register for both years to account its assets. In the absence of a fixed asset register it was difficult to determine if all property, plant and equipment belongs to the council, do exist and have been correctly valued. As such the audit team failed to verify whether the amount of non-current assets in the financial statements amounting to K144,622,628.00 represents items for property, plant and equipment which were in existence as at 30 June 2013 and 2014.

(b) Capital funds accumulated to K240,854,399 as at 30 June 2014 without supporting documentation or schedules

Section 53 of Local Government Act states that a Council 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.

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998.

It was however, noted that the Council did not provide the supporting documentation or schedules of the following items under capital funds in the financial statements.

Table 8: Capital Funds without supporting documentation for Machinga District Council

Item	2012/2013(K)	2013/2014(K)
Capital expenditure total account	17,752,945	19,091,496
Revenue contribution to capital	513,299	513,299
Capital donations(JICA)	134,427,714	134,427,714
Donor/Capital funds unapplied	9,855,047	86,608,282
Loans repaid	43,500	43,500
Contribution from plant & vehicles	170,108	170,108
Total	<u>162,762,613</u>	<u>240,854,399</u>

(c) Payment vouchers not produced for audit K377,112,633.00

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 our audit we were unable to verify payments amounting to K93,028,633 and K284,084,000 for the period ending 30th June 2013 and 2014 respectively, due to failure to produce payment vouchers and supporting documentation. As a result, the audit team could not ascertain the propriety of the expenditure.

(d) Failure to prepare Bank Reconciliation Statements

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.

It was observed during the audit that the Council did not provide the bank reconciliations of seven (7) bank accounts listed below.

Table 9: Failure to prepare bank reconciliation for Machinga District Council as per bank balances in the table below:

Account Name	Balance as at 30 June 2013 (K)	Balance as at 30 June 2014 (K)
3000 DDF NBS Liwonde	20,558,510	1,675,677
3002 Local Revenue NB Liwonde	1,978,128	2,479,638
3005 Machinga District Council IGPWP	99,083	114,317
3009 Machinga DC Primary Justice Programme	8,155	(74,398)
3007 Machinga DC KFW-Social Cash Transfer	-	7,396,909
3008 Machinga DC IRLAD Project	-	2,209,746
3008/2 Machinga Health Sector NORAD Account	-	67,522
Total	22,643,876	13,869,411

(e) Failure to remit PAYE taxes to MRA K32,923,326.00

It was observed that Pay as You Earn (PAYE) was properly being deducted from members of staff but no remittance was made to

Malawi Revenue Authority (MRA). The Malawi Revenue Authority conducted an audit exercise in 2015 and an amount that was due plus penalties as at 30 June 2013 and 2014 were K8,614,952 and K24,308,374.00 respectively. The amount due was not paid as at the time of audit.

We also noted that the amount of PAYE for 2013 financial year and penalties payable to MRA were not recorded in the financial statements. It should be noted that penalties levied by the Malawi Revenue Authority affects the Council's cash flow and the amount of trade and other payables in the financial statements was materially understated.

(f) Unavailability of general receipts K75,351,236.00

The Public Finance Management Act of 2003, section 78 requires that records required by subsection (I) shall be kept in accordance with generally accepted accounting practice.

It was however observed that the council did not provide copies of the general receipts totaling K69,468,166 and K5,883,070 for 2012/13 and 2013/14 financial years respectively.

(g) Payment vouchers without supporting documents: K91,345,848.00

Local Authorities Accounting and Financial Management Manual section 8.3.3 (e) requires that for all expenses the Council should prepare payment vouchers and attach them to respective supporting documents in terms of supplier invoices, receipts or signed allowance claim sheets

It was observed that payments totaling K22,349,557.00 and K68,996,291.00 for the years ended 30 June 2012/13 and 2013/14 respectively its payment voucher were not attached with supporting documentation such as suppliers, invoices receipts etc. As such the audit team could not validate the genuineness of the expenditure incurred. Table shown below has the details:

Table 10: Payment vouchers for Machinga DC without supporting documents

Sector	2012/2013	2013/2014
Agriculture		675,350.00
ASWAP	2,950,287.00	
Education		1,976,300.00
GR	971,480.00	
Health	6,032,520.00	13,477,689.00
IRLADP	2,699,305.00	
LDF	4,562,630.00	42,381,563.00
LGR	773,556.00	
Local Revenue		744,646.00
NAC		2,747,500.00
NORWAY		5,788,243.00
ORT	<u>4,359,779.00</u>	<u>1,205,000.00</u>
Total	<u>22,349,557.00</u>	<u>68,996,291.00</u>

(h) Payment Vouchers without supporting documents: K13,195,651.00

Local Authorities Accounting and Financial Management Manual section 8.3.3 (e) requires that for all expenses the Council should prepare payment vouchers and attach them to respective supporting documents in terms of supplier invoices, receipts or signed allowance claim sheets

An examination of payment vouchers in respect of CDF disclosed that payments totalling K13,195,651.00 for the year ended 30th June, 2014 its payments vouchers were not attached with supporting documents e.g. receipts, receipts etc. As such it was difficult to ascertain the propriety of the expenditure.

(i) Non-availability of evidence of delivery of construction materials (CDF): K9,207,151.00

We observed that the council bought construction materials worth K9,207,151.00 during the financial year ended 30th June, 2014 under CDF. However, there was no evidence attached to payment vouchers on file to confirm that the materials were received by beneficiaries (example: recipient signing on the document to acknowledge the receipt of items). Details are shown below:

Table 11: Non-availability of evidence of delivery of construction materials (CDF for Machinga)

Date	Document No.	Cheque #	Description of suppliers' name and goods and services supplied	Amount (K)
7/30/2013	RQ003143	66	Ideal General Dealers- Construction Materials	1,486,365
8/5/2013	RQ003144	98	Jackson Mangame N.East- Construction Materials	157,440
6/17/2014	RQ005322	1993	Ideal General Dealers-Central East repl - Construction Materials	552,094
6/17/2014	RQ005323	1994	Ideal General Dealers-Central East repl- Construction Materials	490,057
8/6/2013	RQ003354	115	Makufa Trading - Construction Materials	679,016
11/21/2013	RQ004225	977	Seven Stars- Construction Materials MHG – CE	544,489
3/18/2014	RQ004845	1557	Mafuka Trading - Purchase of foot and netball for MHG.E	681,804
4/17/2014	RQ005060	1798	Mafuka Trading -Construction Materials	1,158,196
8/14/2013	RQ003810	149	Ideal General Dealers- Construction Materials for Mbalika Culvert	267,950
8/20/2013	RQ003486	309	Ideal General Dealers- Construction Materials	206,788
9/23/2013	RQ003640	465	Edward Singano - Kachemba Bridge - Construction Materials	405,500
10/14/2013	RQ003805	600	Ideal General Dealers -Likwenu - Building Materials for Kachemba bridge	661,429
8/2/2013	RQ003262	93	Ideal General Dealers -Building materials for MHG South	855,863
8/6/2013	RQ003346	122	Namwera Wholesale- Construction Materials	824,000
8/6/2013	RQ003342	121	Steven Adimaki - Construction Materials	236,160
Total				<u>9,207,151</u>

(j) Inadequate surcharge recognised on overdue city rates

Section 55 of the Local Government Act 1998 requires Councils to add a surcharge at the rate of 4% per month for all outstanding city

rates balances. Billing of the city rates is done bi-annually. A grace period of 2 months following date of billing the rates is allowed before the surcharge starts running.

However, we noted that the surcharge is being done once per year at a rate of 16% by the system. It was further noted that the Council is using a special billing system for city rates outside IFMIS which makes the Council experience persistent problems with the billing system. The system cannot produce debtors aged list analysis and customers' statements. As such the billing system is giving incorrect results.

(k) Fuel not accounted for: K21,917,137.00

It is a requirement that a fuel ledger should be opened in which all fuel purchased and issued out should be recorded for proper accountability.

An examination of records for 2012/13 financial year revealed that the Assembly did not record fuel worthy K21,917,137 hence it was difficult to ascertain the disposal and accountability of the fuel.

MANGOCHI DISTRICT COUNCIL

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

(a) Submission of Financial Statements within six months from year end.

Section 53 (1) of the Local Government Act of 1998 requires the Assembly to keep proper books of accounts and other records Accounts in relation thereto and to balance its accounts for that year and produce statements of final accounts within six months from the end of each financial year. Section 53 (2) requires the Assembly shall submit the final accounts to the Local Government Finance Committee which shall forward a copy to the Auditor General.

It was observed that Mangochi District Council did not produce their Statements of Final Accounts, submit within six months from the end of the financial year and they did not submit their final accounts to the Local Government Finance Committee to forward to the Auditor General. The delay in preparation of the financial statements also delays the completion of the audit by the Auditor General.

(b) Receivables - Inadequate surcharge recognized for overdue city rates balances

Section 55 of the Local Government Act 1998 requires councils to apply a surcharge at a rate of 4% per month for all outstanding city

rates balances. Billing of the city rates is done bi-annually. A grace period of 2 months following date of billing the city rates is allowed before the surcharge starts running. For balances, remaining unpaid for a full year (12), surcharge amounts ought to be recognized in the relevant period.

We noted that there was no evidence of the council applying any surcharge to its outstanding city rates for the year under review. Non-compliance with the applicable statute as stated above and rates receivable balances may be materially understated.

(c) Cash and Bank - bank reconciliations

Good accounting practice as provided in the Local Authorities Manual (Section 5.7) requires every Council to prepare bank reconciliations on a monthly basis. The Manual further states the purposes of bank reconciliations as follows:

- To analyse the difference between the cash book and the bank statement balances.
- To detect and correct errors made by the bank or cash office.
- To detect possible fraudulent withdrawals from the bank.
- To recognise or identify appropriate expenditures or receipts made directly by the bank.

Contrary to this, Mangochi District Council failed to furnish the audit team with bank reconciliations for cash and cash equivalents amounting to K158,091,395 as presented in the financial statements during the period 2013 and 2014.

(d) Payment Vouchers not presented for audit inspection: K172,766,576.97

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 the council expenditures revealed that payment vouchers amounting to K86,895,844.00 and 85,870,732.97 paid in 2012/13 and 2013/14 financial years respectively were not produced for audit. As a result, the audit team could not ascertain how the funds were used.

(e) Poor fuel management: K23,484,553.00

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 the Council made bulk fuel purchases amounting to K23,484,553 but were not supported with fuel reconciliations and fuel registers to verify its usage were not available.

MANGOCHI TOWN COUNCIL

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

(a) Non-existence of a fixed asset register: K12,286,000.00

Chapter 16.7 of the Local Authorities Accounting and Financial Management Procedures Manual 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.

It was observed during the audit that the Mangochi Town Council had no fixed asset register for both years to account for its assets. The Assets were valued at K12,286,000.00 in the Financial Statements. In the absence of a fixed asset register it was difficult to determine if all property, plant and equipment had been completely recorded, belongs to the council, exist and have been correctly valued.

(b) Non-availability of title deeds for the property of the Council

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 however observed that land and buildings do not have title deeds. As such, ownership of such property could not be verified.

(c) Bank reconciliations not done –ORT account

Treasury Instruction No. 2112 requires that all government ministries, departments and agencies that operate bank account(s) should, for at least a monthly, carry out cash book and bank reconciliation and that bank reconciliation statements are prepared.

Contrary to this requirement, a review of accounting records for a period from July 2013 to June, 2014 revealed that despite the Town Council operating an ORT bank account, no bank reconciliation statements for the mentioned period were prepared.

(d) Understatement of LDF funds in the financial statements: K46,428,251.00

We observed that the LDF funds in the financial statements does not agree with the figure from the Funding Instructions from the National Local Government Finance Committee (NLGFC). The Funding Instruction shows that the Town Council was funded with an amount of K110,309,878.00 while the amount disclosed in the Financial Statements was only K63,881,627.00. The difference of K46,428,251 could not be explained by the Management of the Council.

(e) Payment vouchers not produced for audit: K3,218,361.00

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 our audit we were unable to verify payments amounting to K3,218,361 due to the absence of payment vouchers and supporting documentation. There is a risk that funds can be misused since there are no accountable documents on disbursement of funds for various activities.

(f) Unbanked locally generated income: K12,133,262.00

Public Financial Management Regulations states that all revenue collected shall be remitted revenues to the Central Office Cashier who will issue an official receipt and post the amount in the cash book. All the revenue collected must be banked intact.

It was however noted that revenue amounting to K12,133,262.00 was not banked as it could not be traced in the bank statement hence it was difficult to establish its accountability.

(g) Stores not accounted for: K64,466,102.00

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 for LDF disclosed that stores items valued at K64,466.102.00 were purchased during the period under review but no delivery notes or any other evidence was available to indicate that the materials were delivered on sight. It was, therefore, difficult for the auditors to ascertain their accountability.

(h) Poor Fuel management: K11,717,550

An examination of fuel records for the financial 2013/14 at the council revealed a number of irregularities.

- Failure to keep a fuel ledger where all purchased and issued out is recorded for proper accountability
- Payment of fuel without a supporting approved requisition
- Monthly fuel purchases of varying amount quoted as 'fuel for monthly activities' without further details of the activities
- Fueling of personal vehicles without authorization
- Bulk purchases of fuel with no supporting liquidation report by the Transport officer

The total amount queried from the sampled fuel transaction was MK11,717,550.

MCHINJI DISTRICT COUNCIL

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

(a) Requested information on all items in the Annual Financial Statements not submitted 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 Council failed to submit the requested information on all items in the annual financial statements (AFS) for the year ended 30th June 2014. Some of the information requested related to property, plant and equipment and work in progress in the statement of financial position and government transfers and locally generated revenues in the statement of comprehensive income. Consequently, the audit team was unable to give an opinion on all of the items in the AFS for the year ending 30th June 2014.

(b) Failure to present assets for physical verification: K4,199,546.64

Section 10 (1) (i) of the Public Finance Management Act, 2003 requires each Controlling Officer to ensure that all necessary precautions are taken to safeguard public resources under his charge.

Contrary to the above regulation, a physical verification of assets disclosed that assets worth K4,199,546.64 included in the financial statements for the year ending 30th June, 2013, could not be traced as

the Council staff failed to show the audit team where they were located. Those assets may not have existed thereby resulting in overstating of the property, plant and equipment amount in the balance sheet.

M'MBELWA DISTRICT COUNCIL

47. An audit of M'mbelwa District Council for the years ended 30th June, 2013 and 2014 was completed in June, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Revaluations of Property, plant and equipment not conducted

Chapter 16.5 of the Revised Local Authorities Accounting and Financial Management Procedures Manual 2009, states that to ensure that fixed assets are reflected at their fair values in the balance sheet, Local Authorities shall periodically revalue their assets. All categories of fixed assets shall be revalued at five year intervals with the exception of computers which shall be revalued after two years.

It was however noted that all fixed assets had not been revalued during the financial years ending 30th June, 2013 and 2014. Consequently, the value of assets disclosed in the balance sheet is significantly affected as it is not close to the fair value of those fixed assets.

(b) Late Submission of Financial Statements

Section 42(2) of the Local Government Act, Act 42 of 1998 requires 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.

Contrary to this requirement, M'mbelwa District Council (Assembly) did not produce their Financial Statements within six months from the end of the financial years ending 30th June, 2013 and 2014 respectively within the required time.

MULANJE DISTRICT COUNCIL

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

(a) Revaluations of Property, plant and equipment not conducted

Chapter 16.5 of the Revised Local Authorities Accounting and Financial Management Procedures Manual 2009, states that to ensure that fixed assets are reflected at their fair values in the balance sheet,

Local Authorities shall periodically revalue their assets. All categories of fixed assets shall be revalued at five year intervals with the exception of computers which shall be revalued after two years.

It was however noted that all fixed assets had not been revalued during the financial years ending 30th June, 2013 and 2014. Consequently, the value of assets disclosed in the balance sheet is significantly affected as it is not close to the fair value of those fixed assets.

(b) Payment vouchers without supporting documents: K442,855,613.05

Treasury Instruction 5.9 (a) 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 the period ending 30th June 2014 revealed that payment amounting to K442,855,613.05 payment vouchers were not attached with supporting documents such as invoices. The audit team could not ascertain propriety of the expenditure.

MWANZA DISTRICT COUNCIL

49. An audit of the Accounts of Mwanza District Council for the years ended 30th June, 2013 and 2014 was completed on 30th June, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Failure to maintain a fixed asset register: K78,848,000.00

Section 53 of Local Government Act states that a Council 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.

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998.

It was noted during the audit for the years ended 30th June, 2013 and 2014 that the council had not updated fixed assets register. The amount of assets presented in the Financial Statements for the two years were K75,396,000 and K78,848,000.00 respectively. In the absence of a fixed asset register it was difficult to determine if all property, plant and equipment had been completely recorded, belongs to the council, exist and have been correctly valued.

(b) Non-disclosure of property in financial statements

Section 53 of Local Government Act states that a Council 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.

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998.

It was noted that the council has property it earns rental income from National Association of People Living with HIV in Malawi (NAPHAM) and houses occupied by the council's employees, however the properties are not disclosed in the notes to the financial statements.

(c) No evidence to support journals posted for payables balances: K92,292,963.00

Section 53 of Local Government Act states that a Council 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.

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998.

The council made some journal postings totaling K92,292,963.00 for trade payables balance whose evidence to support the journal postings was not supplied. It was therefore difficult to ascertain the validity of the postings.

(d) Payment vouchers not checked, authorised and countersigned: K600,000.00

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/her Ministry, all accounts and records relating to the functions and operations of the Ministry are properly maintained.

It was noted that some payments amounting to K600,000.00 were made without being checked, authorised and countersigned contrary to the Finance Management requirement. Payments may be made for invalid transactions.

(e) Payment Vouchers not presented for audit inspection: K97,454,881.07

Section 53 of Local Government Act states that a Council 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.

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998.

Contrary to this requirement, during the years ended 30th June, 2013 and 2014, the Council failed to make available payment vouchers for audit review worth K45,313,152.60 and K52,141,718.47 respectively. It was therefore difficult to ascertain the validity of the transactions.

MZUZU CITY COUNCIL

50. An audit of the Accounts of Mzuzu City Council for the years ended 30th June, 2013 and 2014 was completed in 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Non availability of title deeds for the property of the council

Section 53 of Local Government Act states that a Council 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.

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998.

It was however observed that land and buildings do not have title deeds. As such, ownership of such property could not be verified.

(b) Payment vouchers for Infrastructure Development Fund (IDF) without supporting documents: K24,760,828.95 and K2,899,826.98 for CDF

Section 53 of Local Government Act states that a Council 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.

An inspection of payment vouchers for the year ended 30th June, 2013, revealed that payment vouchers totaling K24,760,828.95 for

Infrastructure Development Fund (IDF) and K2,899,826.98 for CDF were raised and passed for payment without supporting documents. The propriety of the expenditure so incurred could, therefore, not be ascertained.

(c) Payment vouchers not produced for audit: K143,718,196.23

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 payment vouchers totaling K17,704,633.23 and K126,013,563.00 for financial years 2012/2013 and 2013/2014 respectively which had been requested could not be produced for audit. It was therefore difficult to ascertain the validity of the transactions.

NENO DISTRICT COUNCIL

51. An audit of the Accounts of Neno District Council for the years ended 30th June, 2013 and 2014 was completed in 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Property, Plant & Equipment figure not supported: K171,700,000.00

Section 53 of Local Government Act states that a Council 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.

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998.

Property, plant and equipment figure of MK171,700,000.00 in the financial statements was not properly supported with documentary evidence and there was no breakdown detailed records such as fixed assets register for Land, Buildings, Fixtures & Fittings and Motor Vehicles.

(b) Receipts not banked timely

Principles of sound cash management according to Treasury Instructions (2004) require timely collection of cash and prompt banking of the same.

It was observed that the council takes longer time to deposit receipts of cash and cheques. The time lapse ranged from 3 to 25 days. This may lead to abuse and misappropriation of cash.

(c) Payment vouchers not produced for audit: K143,718,196,23

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 payment vouchers totaling K9,586,551.30 and K264,712,791.06 for financial years 2012/2013 and 2013/2014 respectively which had been requested could not be produced for audit. It was therefore difficult to ascertain the validity of the transactions.

(d) Payment Vouchers without supporting documents: K36,893,681.80

Treasury Instruction 5.9 (a) 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 the period ending 30th June 2013 and 2014 revealed that payments amounting to K34,426,081.80 and K2,467,600.00 respectively were not attached with supporting documents. The audit team could not ascertain propriety of the expenditure.

(e) Purchases without sourcing at least 3 quotations: K6,945,538.00

Section 53 of Local Government Act states that a Council 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.

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998. it.

During the year to 30th June, 2013, it was observed that management could provide evidence that they obtained at least three quotations on some payments totaling K6,945,538.00 in respect of DDF and LDF projects. Value for money for such procurements could therefore not be verified.

NKHATABAY DISTRICT COUNCIL

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

(a) Failure to Prepare Bank Reconciliations

Section 53 of Local Government Act states that a Council 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.

An examination of records revealed that the Council was not preparing monthly banking reconciliations for the year ending 30th June, 2013 for the following bank accounts: ORT, Salaries, IRLADP, LDF and Commercial undertaking.

(b) Failure to provide supporting documents for Leave Grants: K17,418,199.00

Treasury Instruction 5.9 (a) 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 the period ending 30th June 2013 and 2014 revealed that payment vouchers amounting to K2,018,800.00 and K15,399,399.00 respectively had no supporting documents for leave grant. The audit team could not ascertain propriety of the expenditure.

(c) Payment Vouchers Without Supporting Documents: K53,839,971.00

Treasury Instruction 5.9 (a) 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.

Contrary to the provisions above, during the two years ending 30th June, 2013 and 2014 respectively, Nkhata- Bay District Council failed to avail to the audit team supporting documents for Other Recurrent Transactions (ORT) totaling K29,259,780.00 and K24,580,191.00 as such the propriety of the expenditures could not be ascertained.

(d) Payment Vouchers Not Produced for Audit: K317,609,648.00

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 payment vouchers totaling K249,315,506.00 and K68,294,142.00 for financial years 2012/2013 and 2013/2014 respectively which had been requested could not be produced for audit. It was therefore difficult to ascertain the validity of the transactions. Details are in table 9 below:

Table 12: Payment Vouchers for Nkhatabay District Council not presented for audit

YEAR	ORT	LDF	DDF	DONOR FUNDS	TOTAL
2013	138,030,337	-	1,220,800	110,064,369	249,315,506
2014	-	51,381,396.00	16,912,746	-	68,294,102

(e) Procurement Without Sourcing Minimum of Three Quotation: K62,599,208.00

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

Contrary to the above requirement, it was noted during the two financial years ending 30th June, 2013 and 2014 that the Council failed to follow standard procurement procedures of sourcing at least three quotations on the payments amounting to K25,796,875 and K36,802,333 respectively.

(f) Late Submission of Financial Statements

Section 42(2) of the Local Government Act, Act 42 of 1998 requires 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.

Contrary to this requirement, Nkhata-Bay District Council (Assembly) did not produce their Financial Statements within six months from the end of the financial years ending 30th June, 2013 and 2014 respectively within the required time.

NKHOTAKOTA DISTRICT COUNCIL

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

(a) Failure to open a fixed asset register accumulated amount of K33,898,141

Section 53 of Local Government Act states that a Council 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.

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 this requirement, the council had in its financial statements property, plant and equipment valued at K37,664,600.70 and K33,898,140.63 respectively for the years ending 30th June, 2013 and 2014, but no fixed asset register was available to substantiate the cost of these assets, accumulated depreciation, acquisitions, disposals and carrying amounts.

(b) Failure to Perform Bank Reconciliations

In terms of Local Authorities Accounting and Financial Management Procedures Manual paragraph 10.1, “in terms of treasury instruction, 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.”

It was noted however that for the two financial years ending 30th June 2013 and 2014, the council did not prepare bank reconciliations for its operating accounts. Management could not provide any other means to satisfy that reconciliations were being performed.

(c) Failure to Provide Bank Deposit Slips and Revenue Summary Sheets amounting to K13,328,255.70

Section 53 of Local Government Act states that a Council 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 this requirement Nkhota-kota District Council failed to furnish the audit team with Bank deposit slips and revenue summary sheets on revenue collected amounting to K8,766,815.70 and K4,561,440.00 for the two years ending 30th June, 2013 and 2014 respectively.

(d) Revenue Amounts Collected but Not Traced to The General Ledger and Bank Amounting to K718,590.00

Local Authorities Accounting and Financial Management Procedures Manual Section 5.2.1 and 5.4.1 respectively requires cash collected to be remitted and acknowledged by the cashier through the issuance of a general receipt upon being satisfied with the deposit slips and the cash summary books and that proper records of the cash is properly documented in the cash book.

Contrary to this requirement, the council failed to furnish the audit team with bank deposit slips or any documentation to confirm that cash collected amounting to K659,040.00 and K59,550.00 for the two

years ending 30th June, 2013 and 2014 respectively, was deposited to the designated bank account. Further scrutiny indicated that these amounts were not posted in the general ledger.

(e) Reconciliations of Cash Collected and Receipt Books Not Performed resulting in Revenue Amounting to K3,375,000 Not Accounted for.

Section 53 of Local Government Act states that a Council 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.

To ensure that all funds are correctly accounted for, the accountant is required to perform reconciliations of cash collected and deposited by revenue collectors with revenue receipt books that have been allocated to him/her after every fortnight evidenced by a record of the same.

Contrary to this requirement it was observed that on submission of the field revenue remittances cash collected was not being reconciled with the cash deposited and the receipt books allocated to the revenue collectors.

As such the Council is not following up on long outstanding receipt books issued to revenue collectors. During the year ended 30th June, 2013, receipt books issued to revenue collectors amounting to K3,375,000.00 could not be accounted for. Revenue collectors could not either submit receipt counterfoils or full receipt books.

(f) Non Remittance of PAYE Deductions: K3,970,075.20

In terms of PFMA section 21.5, requires every controlling officer including district commissioner and chief executive officers should ensure that amounts deducted from employee's emoluments on behalf of the taxation authorities are remitted to appropriate organizations on time.

Pay as You Earn (PAYE) is supposed to be remitted to Malawi Revenue Authority not later than the 14 days of the end of the month in which it was deducted.

Contrary to this requirement, it was noted that for the two years ending 30th June, 2013 and 2014, the district council did not remit PAYE amounting to K1,385,039.70 and K2,585,035.50 respectively to Malawi Revenue Authority.

(g) Payment Vouchers Without Supporting Documents: K128,219,666.68

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 these requirements, it was observed that payments amounting to K75,891,260.19 and K52,328,406.49 respectively for the two financial years ending 30th June, 2013 and 2014, its supporting documents were not attached to the payment vouchers.

(h) Procurement Without Sourcing Minimum of Three Quotation: K16,268,814.84

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

Contrary to the requirement above, it was observed that during the years ended 30th June, 2013 and 2014, goods and services were procured and paid without sourcing the required minimum number of three quotations. The Amounts involved for the two years are K8,864,271.62 and K7,404,543.22 respectively.

(i) Fuel Not Accounted for: K12,172,379.80

Treasury Instructions 5.9 (b), as read together with Treasury Instructions 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 managed.

Contrary to this requirement it was, observed that during the two financial years ending 30th June, 2013 and 2014, the Council failed to maintain fuel registers and consequently, fuel worth K4,944,625.90 and K7,227,753.90 from the council headquarters ORT account was not recorded in the register. Accountability for such fuel could therefore not be ascertained.

(j) Late Submission of Financial Statements

Section 42(2) of the Local Government Act, Act 42 of 1998 requires 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.

Contrary to this requirement, Nkhota-kota District Council (Assembly) did not produce their Financial Statements within six months from the end of the financial years ending 30th June, 2013 and 2014 respectively within the required time.

NSANJE DISTRICT COUNCIL

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

(a) Failure to Prepare Bank Reconciliation Statements

The Local Authorities Accounting and Financial Management Procedures manual, May 2009 requires that Local Authorities shall prepare bank reconciliation statements by the 10th of the ensuing month. The bank reconciliation statement shall be submitted to the Accountant General through the NLGFC with copies to the Auditor General.

Contrary to this requirement, Nsanje District Council did not provide us with the Bank reconciliation statements and Bank statements for the years ended 30th June, 2013 and 2014 to enable us to verify the existence of account balances and other financial transactions. The bank accounts in question include; Other Recurring transactions, Constituency Development fund, DC Salaries and Deceased Estate.

(b) Late Submission of Financial Statements

Section 42(2) of the Local Government Act, Act 42 of 1998 requires 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.

Contrary to this requirement, Nsanje District Council (Assembly) did not produce their Financial Statements within six months from the end of the financial years ending 30th June, 2013 and 2014 respectively within the required time.

(c) Failure To Maintain Fixed Asset Register: K4,750,000.00

The Local Government Act, Act 42 of 1998 second Schedule additional functions of the Assembly requires among other things that: An Assembly shall prepare a plan for the management the Assembly's land and buildings and other real property assets owned by or in the possession or under the control of the Assembly, which in addition to any other information which the Minister may require under sub-clause (2) shall contain the following:

- a description of the property by reference to its plot number or location;
- the current use or uses;
- the planning designation under any District Physical Development Plan prepared or under preparation pursuant to the Town and Country Planning Act;

- the value of the assets according to the entry in the Valuation Roll or Supplementary
- Valuation Roll if any or the Assembly's register of Fixed Assets whichever is the higher;

Contrary to this requirement, for year ended 30th June, 2014, Nsanje District 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. The value of Non-Current assets appearing in the Financial Statements not supported by a fixed asset register was K4,750,000.00

(d) Payment Vouchers not presented for audit inspection: K46,052,829.00

Section 53 of Local Government Act states that a Council 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 this requirement, the Council failed to make available payment vouchers for audit review worth K13,071,783.00 and K32,981,046.00 for the years ended 30th June, 2013 and 2014 respectively.

(e) Procurement of Goods and Services without IPC Approval: K6,994,414.23

Public Procurement Act (2003) requires that before effecting any procurement of goods and services where request for quotations (RFQ) method of procurement is chosen, at least three quotations must be sourced. The Act also stipulates that Internal Procurement Committee (IPC) must approve all procurement of goods and services.

Contrary to this requirement, it was observed that during the two years ending 30th June, 2013 and 2014, Nsanje District Council purchased some goods and services worth K3,651,625.73 and K3,342,788.50 respectively without IPC approval since there were no IPC minutes to support the purchases.

(f) Subsistence Allowances Without Request To Leave Duty Station Forms K2,840,600.

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 disclosed the council paid subsistence allowances amounting to K2,503,600.00 and K337,000.00

during the financial years ending 30th June, 2013 and 2014 respectively without request to leave duty station forms.

(g) Payment Vouchers Without Supporting Documents: K726,175.00

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 the financial records disclosed that payment amounting to K726,175.00 for the year ended 30th June, 2014 its supporting documents were not attached to the payment vouchers. In the absence of the supporting documents it was difficult to ascertain whether the payments were a proper charge to public funds.

NTCHEU DISTRICT COUNCIL

55. An audit of Ntcheu District Council for the years ended 30th June, 2013 and 2014 was completed in May, 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Payment Vouchers Without Supporting Documents: K25,423,474.36

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 this requirement, during the audit review, we observed that payment vouchers totaling K21,912,995.96 and K3,510,478.40 for the years ending 30th June, 2013 and 2014 respectively had insufficient or no supporting documents.

(b) Unauthorized Payment Vouchers: K12,691,075.12

Local Authorities Accounting and Financial Management Manual section 8.3.3 (e) requires that all payments must be authorized by the controlling or authorizing officer.

Contrary to this requirement it was observed that payment vouchers totaling K12,691,075.12 for the year ending 30th June, 2013, were passed and processed for payment without being duly authorized by the controlling officer.

(c) Payment Vouchers not presented for audit inspection: K332,255,802.38

Treasury Instructions 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.

Contrary to the provisions above, Ntcheu district Council did not provide us with the documentation and records required for payments totaling K202,574,217.61 and K129,681,584.77 respectively for the two years ending 30th June, 2013 and 2014 to enable us to conduct an audit in terms of the Public Audit Act, 2003.

(d) Poor Procurement Record Keeping: K6,219,552.00

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 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 provisions above, Ntcheu district Council did not provide the audit team with procurement documents such as IPC Minutes for payments amounting to K6,219,552.00 in the year ended 30th June, 2013.

NTCHISI DISTRICT COUNCIL

56. An audit of the Ntchisi District Council for the years ended 30th June, 2013 and 2014 was completed in May 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Payment vouchers not produced for audit: K32,467,655.49

Treasury Instructions 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.

Contrary to the provision above, Ntchisi district Council did not present to the audit team payment vouchers totaling K20,603,851.65 and K11,863,803.84 for the two years ended 30th June, 2013 and 2014 respectively. Details are shown below:

Table 13: Payment Vouchers for Ntchisi District Council not presented for Audit

2012/2013	AMOUNT (K)
Headquarters	141,620.00
LDF	9,545,389.65
CCJP	10,916,842.00
Total	<u>20,603,851.65</u>
2013/14	
Donor Expenditure	6,762,378.10
ORT	5,101,425.74
Total	<u>11,863,803.84</u>

(b) Payment vouchers without supporting documents (sundry accounts): K91,401,278.68

Section 53 of Local Government Act states that a Council 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 Councils 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.

Contrary to the above requirement, management failed to provide the supporting documentation for payments amounting to K50,338,339.39 and to K41,062,939.29 for the years ended 30 June 2013 and 30 June 2014 as detailed in the tables below:

Table 14: Payment Vouchers for Ntchisi District Council without supporting documents

2012/13	AMOUNT K
Headquarters	694,845.10
Health sector	22,025,164.00
Education sector	3,316,377.94
Agriculture	403,915.00
LDF	6,392,209.91
DDF	17,505,827.44
Totals	<u>50,338,339.39</u>
2013/14	
ORT	7,428,732.24
Grants	7,200,000.00
Donor funds	26,434,207.05
Totals	<u>41,062,939.29</u>

PHALOMBE DISTRICT COUNCIL

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

(a) Payment vouchers not produced for audit: K144,270,856.00

Section 53 of Local Government Act states that a Council 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 Councils 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.

Contrary to the above requirement, management failed to provide payment vouchers amounting to K144,270,856.00 for the years ended 30 June 2013 and 30 June 2014 as detailed in the tables below

Table 15: Payment Vouchers for Phalombe District Council not produced for Audit

	2012/13 (K)	2013/14 (K)	2 YRS (K)
Donor Funds	9,905,684.00	66,428,142.00	76,333,826.00
ORT-Health sector	34,543,819.00	27,480,890.00	62,024,709.00
ORT-Education Sector	2,882,437.00	1,985,280.00	4,867,717.00
ORT-Secretariat	612,604.00	432,000.00	1,044,604.00
Total	47,944,544.00	96,326,312.00	144,270,856.00

(b) Payment vouchers without supporting documentation(CDF): K25,839,091.00

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 this requirement, during the audit review, we observed that payment vouchers for CDF totaling K15,875,062.00 and K9,964,029.00 for the years ending 30th June, 2013 and 2014 respectively had insufficient or no supporting documents.

(c) Supporting documents not produced for audit: K164,374,245.00

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 requirement above, it was observed that supporting documents for payments totaling K104,192,045.00 and K60,182,200.00 for the years ended 30th June, 2013 and 2014 respectively had no supporting documents. Details are shown in the table below:

Table 16: Payment Vouchers without Supporting Documents for Phalombe District Council

Description	2012/13 (K)	2013/14 (K)	2 YRS (K)
Donor Funds			
Expenditure			
(LDF/NAC/CCJP)	56,768,732.00	41,265,785.00	98,034,517.00
ORT Health	20,008,195.00	13,256,346.00	33,264,541.00
ORT Headquarters		589,065.00	589,065.00
ORT Education	27,415,118.00	5,071,004.00	32,486,122.00
Total	<u>104,192,045.00</u>	<u>60,182,200.00</u>	<u>164,374,245.00</u>

(d) Fuel not accounted for: K12,980,084.00

Treasury Instruction number 5.9(b) requires Controlling Officers to ensure that all transactions are recorded in a primary government record or ledger. It is imperative that fuel purchased should be recorded in a fuel register before being issued to subsequent users for accountability and transparency.

Contrary to the above requirement, fuel worth K5,780,084.00 for donor funds and K7,200,000.00 for ORT Health purchased during 2012/2013 and 2013/14 financial years respectively was not recorded in the register. In the absence of any records, it was difficult to ascertain how the fuel was accounted for. Details are indicated below;

RUMPHI DISTRICT COUNCIL

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

(a) Payment vouchers not produced for audit: K134,314,285.24

Section 53 of Local Government Act states that a Council 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 Councils 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.

Contrary to the above requirement, management failed to provide payment vouchers amounting to K16,386,876.94 and K117,927,408.30 for the years ended 30th June 2013 and 30th June 2014 respectively as detailed in the tables below;

Table 17: Payment Vouchers for Rumphi District Council not produced for audit

	2012/13	2013/14	2 Years
	K	K	K
Medical supplies	10,621,691.00	13,705,075.42	24,326,766.42
Rations and Provision	5,765,185.94	5,813,468.50	11,578,654.44
LDF	-	98,408,864.38	98,408,864.38
TOTAL	<u>16,386,876.94</u>	<u>117,927,408.30</u>	<u>134,314,285.24</u>

(b) Payment Vouchers without Supporting Documents: K22,577,682.02

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 for 2012/2013 financial year disclosed that payment vouchers amounting to K5,277,409.77 and K17,300,272.25 for Constituency Development Fund and Local Development Fund respectively which were processed and passed for payment had no supporting documents. In absence of the supporting documents it was difficult to ascertain whether the payments were a proper charge to public funds.

SALIMA DISTRICT COUNCIL

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

(a) Late Submission of Financial Statements

Section 42(2) of the Local Government Act, Act 42 of 1998 requires 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.

Contrary to this requirement, Salima District Council (Assembly) did not produce their Financial Statements within six months from the end of the financial years ending 30th June, 2013 and 2014 respectively within the required time.

(b) Failure to substantiate unusually significant variances in the personal emoluments.

Section 78 of the Public Finance Management Act 2003 states that Councils 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. It further states that Councils 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 54 and enable them to be conveniently and properly audited.

During the audit of Employee Costs, it was noted that the Council's Personal Emoluments had a huge movement between 2012/ 2013 and 2013/2014 Financial Years but management failed to substantiate the movement. Below are the details:

Table 18: Unexplained increase in Personal Emoluments for Salima District Council

2011/12 AMOUNT (MK)	2012/13 AMOUNT (MK)	DIFFERENCE AMOUNT (MK)
15,511,234.00	32,711,560.00	17,200,326.00
2012/13 AMOUNT (MK)	2013/14 AMOUNT (MK)	DIFFERENCE AMOUNT (MK)
32,711,560.00	51,674,005.00	18,962,445.00

THYOLO DISTRICT COUNCIL

60. An audit of Thyolo District Council for the years ended 30th June, 2013 and 2014 was completed in March 2017. The audit disclosed some weaknesses in financial control as highlighted in the following observations:

(a) Failure to maintain an Asset Register: K69,091,523.00

The Local Government Act, Act 42 of 1998, Second Schedule; Additional functions of the Assembly requires an Assembly to prepare a plan for the management of land and buildings and other real property assets owned by or in the possession or under the control of the Assembly, which in addition to any other information which the Minister may require under sub-clause (2) shall contain

- a description of the property by reference to its plot number or location;
- the current use or uses;
- the planning designation under any District Physical Development Plan prepared or under preparation pursuant to the Town and Country Planning Act;
- the value of the assets according to the entry in the Valuation Roll or Supplementary Valuation Roll if any or the Assembly's Register of Fixed Assets whichever is the higher.

It was observed during the audit that the Thyolo District Council had no fixed asset register for both years to account its assets. In the absence of a fixed asset register it was difficult to determine whether the carrying amounts of the assets have been correctly reflected in the financial statements. As such the audit team failed to verify whether the amount of non-current assets in the financial statements amounting to K72,708,294.00 and K69,091,523.00 represents assets which were in existence as at 30 June 2013 and 2014 respectively.

(b) Failure to provide bank reconciliations as well as bank statements

In terms of Local Authorities Accounting and Financial Management Procedures Manual paragraph 10.1, "in terms of treasury instruction, 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."

However, it was noted that for the two financial years ending 30th June 2013 and 2014, the council did not prepare bank reconciliations for all accounts.

(c) Failure to submit Payroll: K36,454,903

Section 53 of Local Government Act states that a Council 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.

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998.

In performing normal audit procedures on employee cost, management failed to provide a payroll for the year ending 30 June 2013. Thus a limitation of scope was placed on employee cost of K36,454, 903.

(d) Payment vouchers not presented for audit: K86,292,253.34

Section 53 of Local Government Act states that a Council 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.

The Council shall keep the accounts and records referred to in above paragraph in such a way as to facilitate the preparation of financial statements required to be conveniently and properly audited as required by Section 54 of Local Government Act of 1998.

An examination of expenditure records for 2012/2013 revealed that payment vouchers amounting to K86,292,253.34 were not presented for audit review. Consequently, the audit team failed to substantiate the validity of the expenditure made.

(e) Non submission of final accounts within six months from year end

Section 42(2) of the Local Government Act, Act 42 of 1998 requires 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.

Contrary to this requirement, Thyolo District Council (Assembly) did not produce their Financial Statements within six months from the end of the financial years ending 30th June, 2013 and 2014 respectively within the required time.

ZOMBA CITY COUNCIL

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

(a) Failure to perform revaluation of Property, Plant and Equipment

Revaluation of fixed assets, page 182 of the procedure manual requires Local Authorities to ensure that that fixed assets are reflected at their fair values in the balance sheet, Local Authorities shall periodically revalue their assets. All the categories of fixed assets shall be revalued at five year intervals with the exception of which shall be revalued after two years.

A review of a valuation roll revealed that items of property, were last revalued in 2002 resulting in property, plant and equipment being recognized at lower than market value for the years ended 30th June 2013 and 2014 respectively.

(b) Payment vouchers not produced for audit: K108,745,565.78

Treasury Instruction (2004) No. 11.6.1 states that in terms of the Public Audit Act (2003), the Auditor General and his staff are at all times entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers must give them every facility for inspecting such documents.

An examination of expenditure records for the year ended 30th June, 2014 revealed that payment vouchers amounting to K108,745,565.78 were not presented for audit review. Consequently, the audit team failed to substantiate the validity of the expenditure made.

(c) Non-payment of PAYE to Malawi Revenue Authority: K37,978,492.15

Taxation Act states that every employer who employs people whose earnings exceed K20,000 per month or K1,806,000 in a year is required to register for operation of PAYE.

The deduction of PAYE from an employee's earnings becomes due at the time when earnings are paid to the employee. The amount of tax deducted should be remitted to MRA not later than the 14th day from the end of the month during which the tax was deducted.

During the audit, it was noted that funds amounting to K23,240,323.29 and K14,738,168.86 for 2012/13 and 2013/14 respectively deducted from the employee salaries had not been remitted to Malawi Revenue Authority.

(d) Failure to disclose donor funds: K350,499,150.73

The Local Government Act, 1998, Section 53 (1) states that the Assembly shall keep proper books of accounts and other records. Accounts 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. (2) The Assembly shall submit the final

accounts to the Local Government Finance Committee which shall forward a copy to the Auditor General

According to the financial management procedure manual, capital donations shall be recognized on receipt and amortized over the period covered by the grant. Donor funds shall be transferred to local authorities by direct bank transfers or by cheques. During the audit, it was noted that the Council did not disclose donor funds received during the year 2013/2014 amounting to K350,499,150.73. Details are shown in the table below:

Table 19: Failure to Disclose Donor Funds for Zomba City Council

Donor	Credit transfers to bank
LDF	339,284,125.84
GIZ / Partnership	6,228,144.26
Ablution block	245,089.41
SAI	4,741,791.22
TOTAL	<u>350 499 150.73</u>

ZOMBA DISTRICT COUNCIL

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

(a) Lack of supporting documents for Locally generated revenue: K10,013,017.74

Section 53 of Local Government Act states that a Council 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:

- (1) Councils 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.
- (2) Councils 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 54 and enable them to be conveniently and properly audited.

During the performance of normal audit procedures on 2014 records, it was noted that there were no supporting documents such as bank

statements and deposit slips for Locally Generated Revenue amounting to K10,013,017.74. Therefore, confirmation of completeness, occurrence, accuracy and classification of the transactions could not be obtained.

(b) Lack of supporting documents for Recurrent Expenses: K69,825,981.51

Section 53 of Local Government Act states that a Council 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:

- (1) Councils 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.
- (2) Councils 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 54 and enable them to be conveniently and properly audited.
- (3) The accounts and records required by subsection (1) shall be kept in accordance with generally accepted accounting practice.
- (4) Councils shall retain all the accounts and records referred to in subsection (1) for at least seven years after the completion of the transactions to which they relate.

During the performance of normal audit procedures, it was noted that management failed to provide payment vouchers and relevant supporting documents for recurrent expenditure amounting to K69,825,981.51 (2014).

(c) Failure to provide documents on Capital outlay expenses (CDF): K3,009,752.00

Section 53 of Local Government Act states that a Council 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.

Councils shall retain all the accounts and records referred to in subsection (1) for at least seven years after the completion of the transactions to which they relate.”

During the performance of our normal audit procedures on the 2012/13 annual financial statements, we requested sufficient

appropriate audit evidence with regard to capital outlay expenses (CDF) amounting to K3,009,752.00 of which management failed to provide.

(d) Payments made without supporting documents: K13,227,667.00

The Public Finance Management Act (2003) Section 78 states the following:

- (1) Councils 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.
- (2) Councils 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 54 and enable them to be conveniently and properly audited.
- (3) The accounts and records required by subsection (1) shall be kept in accordance with generally accepted accounting practice.
- (4) Councils shall retain all the accounts and records referred to in subsection (1) for at least seven years after the completion of the transactions to which they relate.

During the performance of our normal audit procedures on the 2012/13 annual financial statements, management failed to provide sufficient supporting documentation on recurring expenses amounting to K13,227,667.00.

(e) Overstatement of Donor Funds

The Public Finance Management Act (2003) Section 78 states the following:

- (1) Councils 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.
- (2) Councils 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 54 and enable them to be conveniently and properly audited.
- (3) The accounts and records required by subsection (I) shall be kept in accordance with generally accepted accounting practice.

- (4) Councils shall retain all the accounts and records referred to in subsection (1) for at least seven years after the completion of the transactions to which they relate.

During the performance of our normal audit procedures on the 2012/13 annual financial statements, we requested to be provided with certain sufficient supporting documentation with regards to Donor funds receipts as disclosed in the Income and expense summary. It was noted that in 2013, there was a total difference of K44,511,132.81 as an overstatement. Details are shown on the Table below:

Table 20: Overstatement of Donor funds for Zomba District Council in the Annual Financial

Account	Cashbook	AFS	Difference
LDF	645,415,296,00	643,399,296,00	2,016,000,00
DDF	<u>136,734,998,19</u>	<u>183,262,131,00</u>	<u>-46,527,132,81</u>
Total	<u>782,150,294,19</u>	<u>826,661,427,00</u>	<u>-44,511,132,81</u>

(f) Non remittance of Pay as You Earn to MRA: K 6,155,665.20

The Public Finance Management Act section 78 states that Councils 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, Zomba District Council is supposed remit Pay As You Earn (PAYE) on behalf of its employees to Malawi Revenue Authority (MRA) as per the requirements of the Taxation Act.

The Pensions Act Section 61 (1) obliges employers to promptly remit pension contributions no later than 14 days after the end of the month in which the liability to make contributions arose.

During the performance of our normal audit procedures on the 2012/13 annual financial statements, we requested to be provided with certain sufficient supporting documentation with regards to pay as you earn and pension remittance as this forms part of the employee costs. It was observed that management did not remit Pay as You Earn and Pension amounting to K2,592,414.00 and K3,563,251.20 respectively to the relevant bodies.

PART IV

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

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 given to all the Councils. This has been caused mainly by the same problem of not properly maintaining books of account and using the information 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 Account for assets in the Financial Statements
 - Failure to maintain a Fixed Asset Register
 - Differences between the underlying records and the Financial Statements
 - Under billing and under banking of revenue
 - Poor Stores Management
 - Clear flouting of the provisions of the Public Procurement and Disposal of Public Assets no 41 of 2016 and its related Regulations.
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.

RECOMMENDATIONS

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.

December, 2017

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GLOSSARY

Unqualified Opinion

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

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

Adverse Opinion

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.