

REPORT OF THE AUDITOR GENERAL

ON THE

ACCOUNTS OF LOCAL AUTHORITIES

FOR THE YEAR ENDED

30TH JUNE, 2021

NATIONAL AUDIT OFFICE
SUPREME AUDIT INSTITUTION OF MALAWI



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To provide assurance on accountability, transparency, integrity and value for money in the management of public resources to all stakeholders through quality audits.



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1st September, 2022

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

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

Dear Madam,

Pursuant to the provisions of Section 184 (2) of the Constitution of the Republic of Malawi of 1994 and the Section 15 of the Public Audit Act of 2003, I have the honour to submit my report on the results of the Financial and Compliance audit of the Local Authorities for the year ended 30th June, 2021 for tabling in the National Assembly.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'TKB' with a large flourish.

THOMAS K. B. MAKIWA
Acting Auditor General

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ACRONYMS

CDF	:	Constituency Development Fund
DC	:	District Commissioner
DDF	:	District Development Fund
GRF	:	General Resource Fund
IFMIS	:	Integrated Financial Management Information System
IPC	:	Internal Procurement and Disposal Committee
IPSAS	:	International Public Sector Accounting Standards
ISSAIs	:	International Standards of Supreme Audit Institutions
LGA	:	Local Government Act of 1998
MRA	:	Malawi Revenue Authority
NLGFC	:	National Local Government Finance Committee
ORT	:	Other Recurrent Transactions
PAA	:	Public Audit Amendment Act No 10 of 2018
PFMA	:	Public Finance Management Act of 2003
PPDPA	:	Public Procurement and Disposal of Public Assets Act 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 other financial information of City, Town, Municipality and District Councils for the year ended 30th June, 2021.

Scope of Audits

I have conducted Financial and Compliance audit on thirty-five (35) Councils in Malawi for financial year ended 30th June, 2021. 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 as well as compliance with all applicable laws and regulations. Although the audits were conducted in accordance with ISSAIs, they do not guarantee absolute accuracy of the detection of non-compliance with laws and regulations, financial irregularities and fraud.

However, the Public Audit Act 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' other financial information in order to find out whether 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;
- Evaluation and testing of the accounting and internal control systems;
- Testing of controls to ensure that procedures have been applied and that the relevant laws and regulations have been complied with, including the test for validity, completeness and accuracy of the accounts; and
- Reporting the audit findings based on the audit procedures performed and evidence gathered.

Findings

The findings have been classified into eight (8) categories summarized as follows:

(a) Expenditure Management

- Expenditures made without following procedures (Irregular expenditure)
- Misallocation of Funds (funds spent on different functions from the approved budget)
- Contract payments made before service delivery
- Payments not related to CDF or DDF
- Unauthorised transfers of Deceased Estate Funds to DDF Account
- Salaries paid from operations account instead of salaries account
- Payment of wages below minimum wage
- Abuse of CoVID 19 Funds
- Cash payment to staff instead of suppliers
- Over expenditures
- Payments in the bank statement but not in the cashbook or cheque dispatch register
- Nugatory expenditure
- Payment for deceased estate, minors made without raising payment vouchers
- Failure to pay salary and leave grants arrears for direct staff
- Failure to remit PAYE taxes to MRA
- Failure to process transactions through IFMIS
- Failure to administer deceased estates
- Embezzlement of deceased estate funds
- Failure to recover loans and advances

(b) Financial Statement related issues

- Wrong Amount of Cash and Cash Equivalent shown in the financial statements
- Failure to Revalue Council Assets
- Differences Between the Ledger and Bank Account Balances
- Failure to Safeguard Council Property

- Ownership Documents for Property Not Produced
- Lack of title deeds for Council's assets
- Selective valuation of same class of assets
- Adjusted figures for donor receipts not supported with documentary evidence
- Prior year adjustments made without journal entries
- Financial Statements and General Ledger differences
- Understatement of Assets
- Understatement of expenses (depreciation)
- Misstatement of cash flow amounts
- Failure to revalued assets
- Failure to Safeguard Councils' Property
- Motor Vehicles meant for maintenance lying idle at private garages for a long time

(c) Procurement

- Suspicious procurement of an automated car park system
- Procurements done without approval of IPDC
- Mis-procurement of stores
- Payment made to unregistered suppliers

(d) Project Management

- Failure by ADC/UDC to compile annual reports on implementation of CDF projects
- Operating without Urban Development Plan
- CDF materials purchased but not delivered
- Payments without CDF application forms
- Failure to monitor implementation of CDF & DDF projects
- Failure to sign contract documents
- Failure to compile annual reports on CDF projects by members of parliament
- Failure to open and operate a separate account for CDF.
- Under Utilisation of Constituency Development Fund
- Improper handling of construction materials for projects

- Improper certification of CDF projects
- Completion Certificates issued for incomplete projects
- Full contract amount paid for partly completed projects
- Finished Projects Not Being Used (White Elephant)
- Unrealistic Budget Estimation of Projects
- Delays in implementation and completion of projects
- Expenditure on substandard work

(e) Receivables Management

- Failure to collect revenue from debtors
- Failure to effect deductions on advances

(f) Record Management

- Deceased Estate Funds not recorded in the Paper Money Register
- General Receipts Book Not Presented for Audit
- Deposit slips without revenue collectors' summary sheets
- General receipt books not presented for audit
- Failure to present project files and Annual Investments Plans (AIPs)
- Payment vouchers without supporting documents
- Fuel not accounted for through fuel ledgers and log books
- Failure to provide the list of all registered properties, subject to property rates
- Payment Vouchers not presented for Audit
- Constituency Development Fund project appraisals not produced for audit review

(g) Revenue Management

- Under Collection of Revenue
- Revenue not accounted for
- Underbanked revenue

(h) Payables Management

- Long outstanding payables
- Failure to provide supporting documentation for accounts payables
- Payables amount adjusted without supporting documents

General Recommendations

- (1) Councils should ensure that adequate and effective controls are in place to safeguard against loss of revenue, assets and other public funds;
- (2) All revenues not banked should be banked within seven days of receiving this report;
- (3) All funds which have not been accounted for should be accounted for within a month of receiving this report and the responsible officers dealt with in accordance with the existing regulations;
- (4) Investigation should be instituted for all payments which were made for non-existent and incomplete construction projects;
- (5) Councils that failed to process some transactions through IFMIS should be probed as to why this was not done and appropriate action should be taken;
- (6) Councils that failed to remit PAYE to MRA need to explain and justify this anomaly; and remit the PAYE within one month after receiving this report;
- (7) All deceased estate funds due for payment must be paid within one month after receiving this report;
- (8) All procurement flaws should be investigated;
- (9) Controlling Officers must ensure strict adherence to procurement laws and regulations;
- (10) All project management flaws especially on CDF projects must be investigated;
- (11) The Controlling Officers must ensure strict adherence to CDF and other funds guidelines and need to demand monthly reports on the same, taking disciplinary action against any officer in violation and reporting to law enforcement agencies;
- (12) All irregular expenditures should be probed further and responsible officers dealt with in accordance with relevant laws and regulations;
- (13) The Controlling Officers must monitor all their monthly expenditures and ensure that all payment vouchers are fully supported and that they are intact;
- (14) The problem of poor record keeping has persisted for long. Any officer responsible for missing vouchers, failure to attach necessary supporting documents should face disciplinary action;
- (15) The Controlling Officers must, within one month of receiving this report, come up with a plan on how outstanding loans and advances will be recovered;
- (16) The Controlling Officers must, within a month of receiving this report, come up with a plan on how they will collect outstanding debts from their clients.

- (17) The Councils should speed up the process of getting title deeds for all their assets and include them in the books and financial statements;
- (18) The Councils need to strictly adhere to the Local Authority Accounting and Finance Management Procedures Manual on all aspects of record keeping and financial reporting;
- (19) The NLGFC should be strict in ensuring that the Directors of Finance and accounting staff are maintaining proper books of account and adhering to the IPSAS accrual stage three (3) as required by each Council; and
- 20) Disciplinary measures should be effected on officers who deliberately violate accounting reporting procedures.

Acknowledgement

I wish to place on record my profound gratitude and appreciation to staff in my office including everyone who was part and parcel during the audit execution.

I also wish to acknowledge the assistance and cooperation rendered by the Ministry of Finance & Economic Affairs, the Accountant General, Ministry of Local Government and Rural Development, the National Local Government Finance Committee, District Commissioners, Chief Executive Officers and their members of staff during the period under audit. The cooperation enabled me to obtain information and documentation for the audit in a timely manner.

Special thanks and appreciation should go to the World Bank through the Governance to Enable Service Delivery (GESD) Project for providing the finances for the audit of the twenty eight (28) District Councils.

PART I

BACKGROUND AND GENERAL INFORMATION

Compliance audit of Councils

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 Local Authorities and to exercise such other powers in relation to the public accounts and accounts of other public authorities and bodies as may be prescribed by an Act of Parliament, in so far as they are compatible with the principle duties of my office.
2. The PAA requires, 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;
3. 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.
4. 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

5. 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 (6) months from the end of each financial year. Subsection (2) of the same requires the Councils to submit the final accounts to the National Local Government Finance Committee which is shall forward a copy to me.

Controlling Officer's Responsibility

6. In terms of LGA (19914) as read together with Section 10 of the PFMA (2003), 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.
7. 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.
8. 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

9. 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. The audit of the financial statements and compliance was conducted in all thirty-five Local Authorities in Malawi for financial year ended 30th June, 2021.
10. 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

11. 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

12. The audit reports comprise

- (1) A Financial Audit Report containing the Auditor General's opinion on Local Authority's financial statements, a complete set of audited financial statements and other relevant statements and Notes to the Financial Statements
- (2) A Compliance Audit Report containing the Auditor General's conclusion on how the Council has complied with various applicable laws, regulations and other authorities.
- (3) A 'Management Report' which:
 - (a) Provides comments and observations on the accounting records, systems and controls that were examined during the course of the audit;
 - (b) Provides comments and observations on the non-compliance by the Local Authorities of the various applicable laws and regulations;
 - (c) Identifies specific deficiencies or areas of weakness in systems and controls, and make recommendations for their improvement;
 - (d) Communicates matters that have come to my attention during the audit which might have a significant impact on the implementation of the Local Authority's operations;
 - (e) Gives comments on the extent to which outstanding issues/qualifications issues have been addressed;
 - (f) Provides comments on previous audits' recommendations that have not been satisfactorily implemented; and
 - (g) Brings to management attention any other matters that I consider pertinent.

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. All unresolved material matters are compiled into the Annual Report which is submitted to Parliament.

Audit Opinion

13. For the year ended 30th June 2021, I issued unqualified opinions on six (6) councils; qualified (except for) opinions on twenty-six (26) councils; and adverse opinions on three (3) councils.

Table 1 below provides a two-year comparative analysis of the audit opinions which were issued to the different councils.

Table 1: Two Year Comparative Analysis Of The Audit Opinion

AUDIT OPINION			
ITEM	COUNCIL	2019/2020 FY	2020/2021 FY
1	Balaka District	Qualified	Qualified
2	Blantyre City	Unqualified	Unqualified
3	Blantyre District	Adverse	Qualified
4	Chikwawa District	Qualified	Qualified
5	Chiradzulu District	Qualified	Qualified
6	Chitipa District	Qualified	Unqualified
7	Dedza District	Qualified	Qualified
8	Dowa District	Qualified	Unqualified
9	Karonga District	Qualified	Qualified
10	Kasungu Municipal	Qualified	Adverse
11	Kasungu District	Qualified	Qualified
12	Likoma District	Qualified	Qualified
13	Lilongwe City	Qualified	Unqualified
14	Lilongwe District	Qualified	Qualified
15	Luchenza Municipal	Adverse	Adverse
16	Machinga District	Qualified	Qualified
17	Mangochi District	Qualified	Qualified
18	Mangochi Municipal	Unqualified	Qualified
19	Mchinji District	Adverse	Qualified
20	M'mbelwa District	Qualified	Qualified
21	Mulanje District	Qualified	Qualified
22	Mwanza District	Qualified	Qualified
23	Mzuzu City	Qualified	Qualified
24	Neno District	Qualified	Adverse
25	NkhataBay District	Qualified	Qualified
26	Nkhota kota District	Adverse	Unqualified
27	Nsanje District	Qualified	Qualified
28	Ntcheu District	Qualified	Qualified
29	Ntchisi District	Qualified	Qualified
30	Phalombe District	Qualified	Unqualified
31	Rumphi District	Qualified	Qualified
32	Salima District	Qualified	Qualified
33	Thyolo District	Adverse	Qualified
34	Zomba City	Qualified	Qualified
35	Zomba District	Qualified	Qualified

PART II

STRUCTURE AND OVERALL PERFORMANCE

Financial Management and Administration Policies

14. 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 Amendment Act (PAA), No 10 of 2018;
 - The Public Procurement and Disposal of Assets Act (PPDA), 2016;
 - The Local Government Act (LGA), 1998;
 - Local Authority Accounting and Procedures Manual 2014;
 - The Corrupt Practices Act (CPA), 1998; and
 - By-laws of the Local Authority

Budgeting process

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

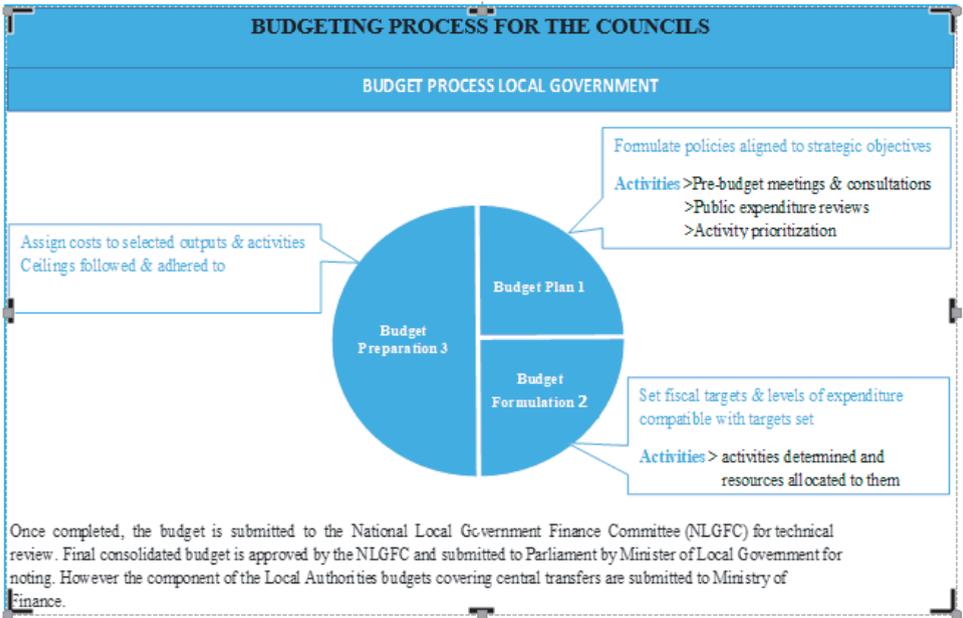


Figure 1: Budgeting process for the Councils

16. 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.

17. 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.

18. Budget Preparation

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

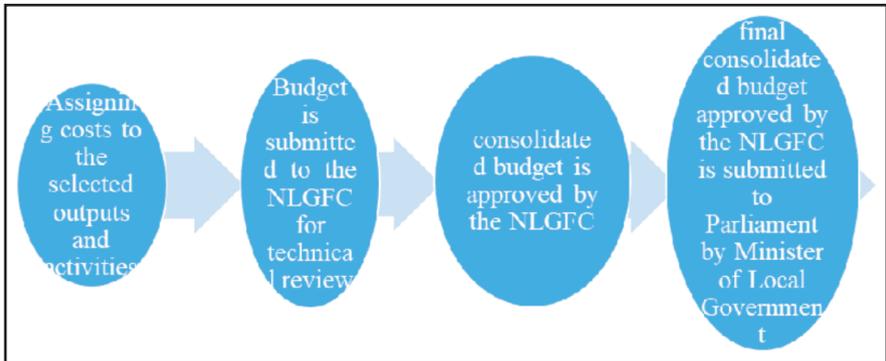


Figure 2: Budget preparation for Councils

19. Accounting and financial reporting for local authorities

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

- To receive all estimates of revenue and all budgets of local authorities;
- To prepare a consolidated budget for all local authorities' annual revenue and expenditure
- Estimates in consultation with the Ministry of Finance, Economic Planning and
- Development for presentation to the National Assembly by the Minister of Local Government and Rural Development;
- To examine and supervise accounts of local authorities in accordance with any Act of
- Parliament, subject to recommendations of the Auditor General;
- To make recommendations relating to the distribution of funds allocated to local authorities by Central Government and to vary from time to time the amounts of allocation in accordance with economic realities on the ground; and
- To make application to the Minister for supplementary funds where necessary.

Analysis of Findings

20. The findings from the Financial and Compliance audit of the Local Authorities for the year ended 30th June, 2021, have been classified into eight (8) categories for ease of understanding. The analysis has been done

using charts. The charts paint a picture in summary of the extent of non-compliance as well as failure to follow the International Public Sector Accounting Standards when preparing Financial Statements.

The eight (8) Categories are as follows:

1. Expenditure Management irregularities
2. Financial Statement related issues
3. Procurement irregularities
4. Project Management irregularities
5. Receivables Management irregularities
6. Record Management irregularities
7. Revenue Management irregularities
8. Payables Management irregularities

(a) Expenditure management

This occupies the largest chunk of the findings. As such it has been sub-classified as follows:

- Expenditures made without following procedures (irregular expenditure)
- Misallocation of Funds (funds spent on different functions other than which parliament approved) contract payments made before service delivery
- Payments not related to CDF and DDF Unauthorised transfers of Deceased Estate Funds to DDF Account
- Salaries paid from operations account instead of salaries account
- Payment of wages below minimum wage
- Abuse of CoVID-19 Funds
- Cash payment to staff
- Over expenditure
- Payments in the bank statement but not in the cashbook or cheque dispatch register
- Nugatory expenditure
- Payment for deceased estate, minors made without raising payment vouchers
- Failure to pay salary and leave grants arrears for direct staff
- Failure to remit PAYE taxes to MRA

- Failure to process transactions through IFMIS
- Failure to administer deceased estates
- Embezzlement of deceased estate funds
- Failure to recover loans and advances

I categorised these findings into irregular, miscellaneous and failure to remit tax and present the charts on each of them as follows:

(i) Bar Chart of Expenditure Management-Irregular Expenditure

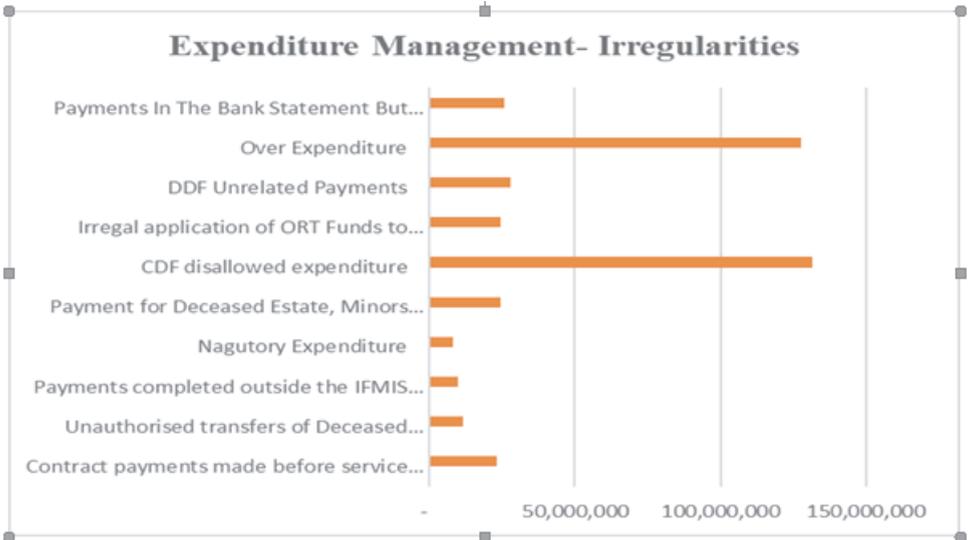


Figure 3: Expenditure Management-Failure to Account

(ii) Bar Chart of Expenditure Management-Miscellaneous Irregularities

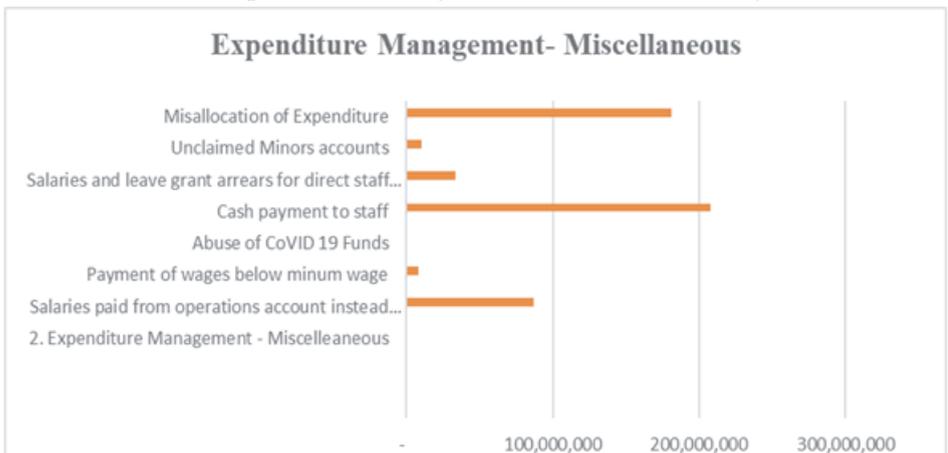


Figure 4: Expenditure Management-Irregular Miscellaneous Irregularities

(iii) Bar Chart of Expenditure Management-Irregularities

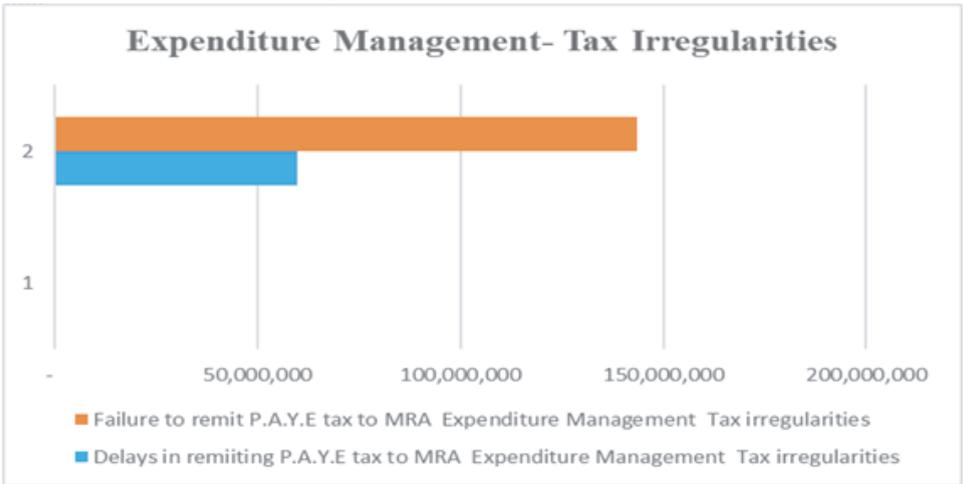


Figure 5: Expenditure Management-Tax Irregularities

(b) **Financial Statement related issues**

The findings in this category relate to the shortcomings of the Councils in preparing financial reports that comply with international best practice. Qualified audit opinions were issued to most Councils as a result of these deficiencies. These irregularities have been sub classified into four (4) categories as follows:

- i. Differences in figures between statements
- ii. Miscellaneous irregularities

I will now present a chart depicting the figures under each subcategory;

- (i) Bar Chart on Financial Statement Related Irregularities-Differences in figures between statements

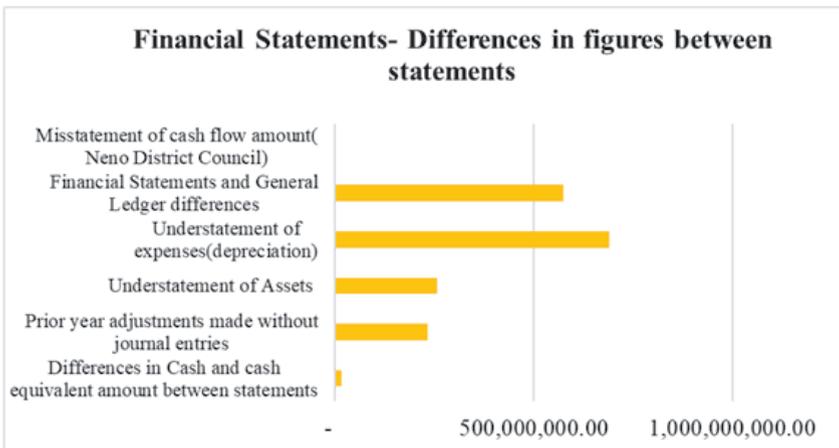


Figure 6: Financial Statements -Differences in figures between statements

(ii) Bar Chart on Financial Statement Related Irregularities- Miscellaneous

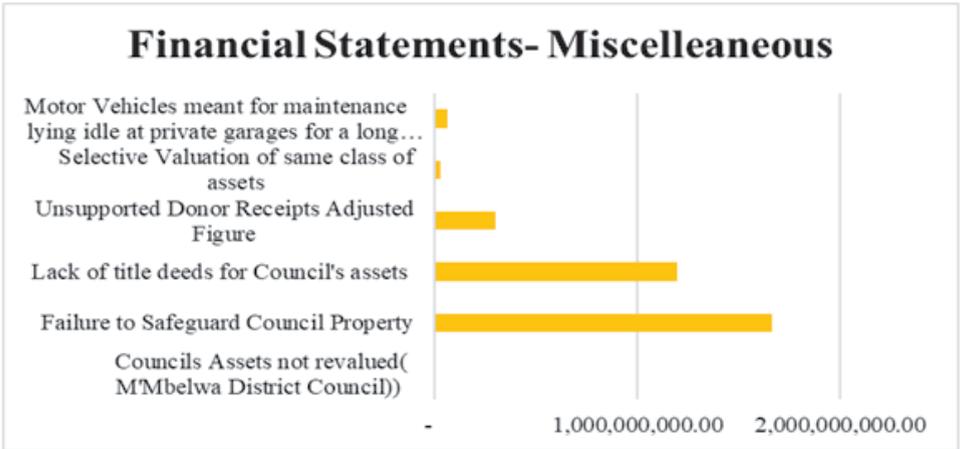


Figure 7: Financial Statement Related Irregularities- Miscellaneous

(c) Procurement Irregularities

The findings in this category relate to the shortcomings of the Councils complying with procurement laws and regulations.

Bar Chart on Procurement Irregularities

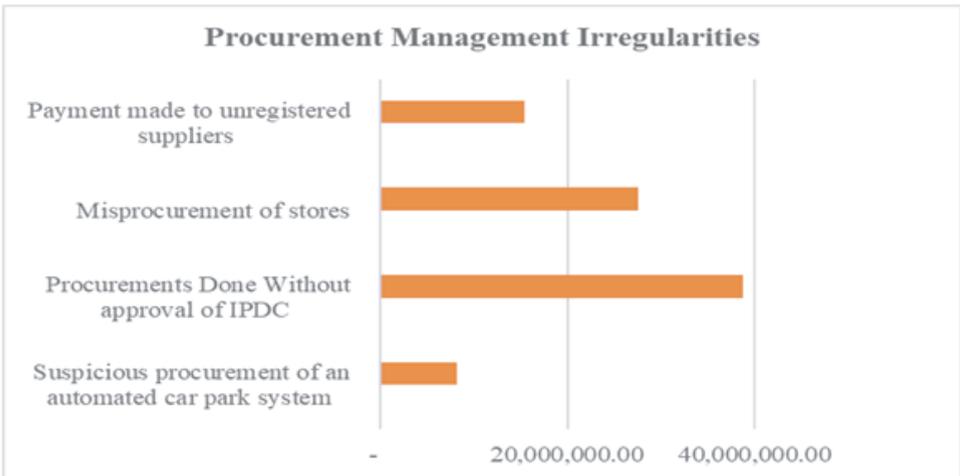


Figure 8: Procurement Irregularities

(d) Project Management Irregularities

The findings in this category relate to the shortcomings of the Councils in managing projects such as those under Constituency Development Fund, District Development Fund among many of those implemented by the Councils.

Bar Chart on Project Management Irregularities



Figure 9: Project Management Irregularities

(e) Record Management Irregularities

The findings in this category relate to the shortcomings of the Councils in maintaining accounting and other financial records.

Bar Chart on Record Management Irregularities

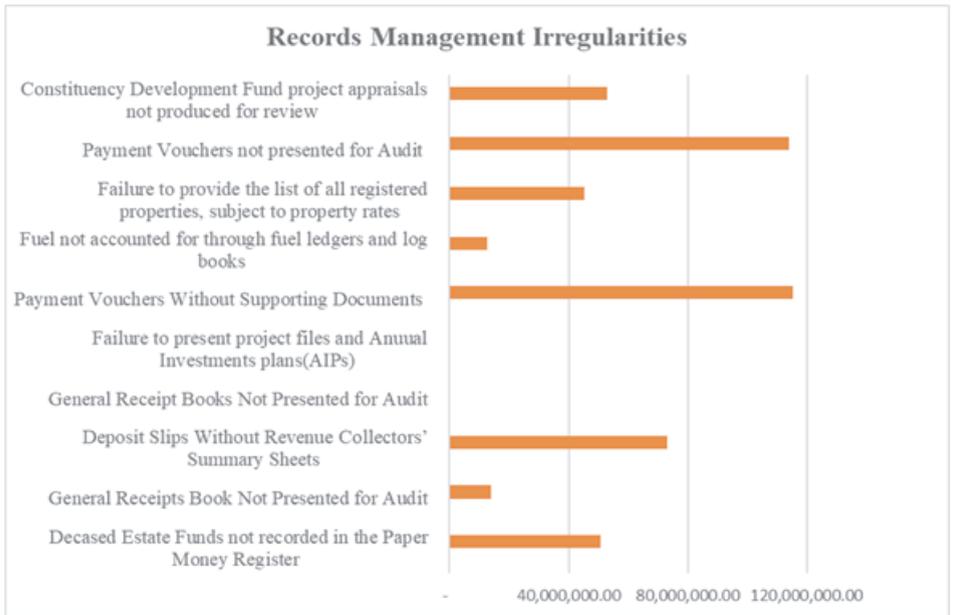


Figure 10: Record Management Irregularities

(f) Receivables Management Irregularities

The findings in this category relate to the shortcomings of the Councils in Managing debtors.

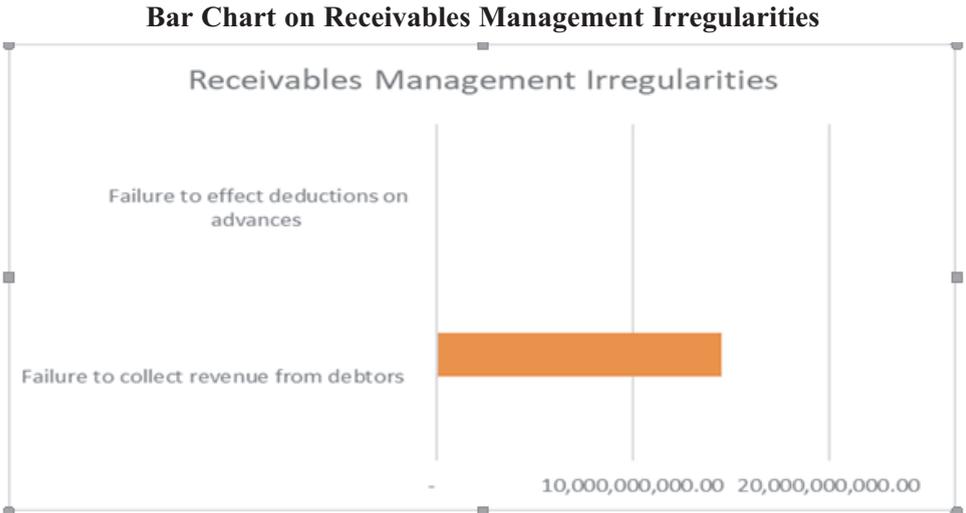


Figure 11: Receivables Management- Failure to collect revenue from debtors

(g) Payables Management Irregularities

The findings in this category relate to the shortcomings of the Councils in managing payments to goods and services providers.

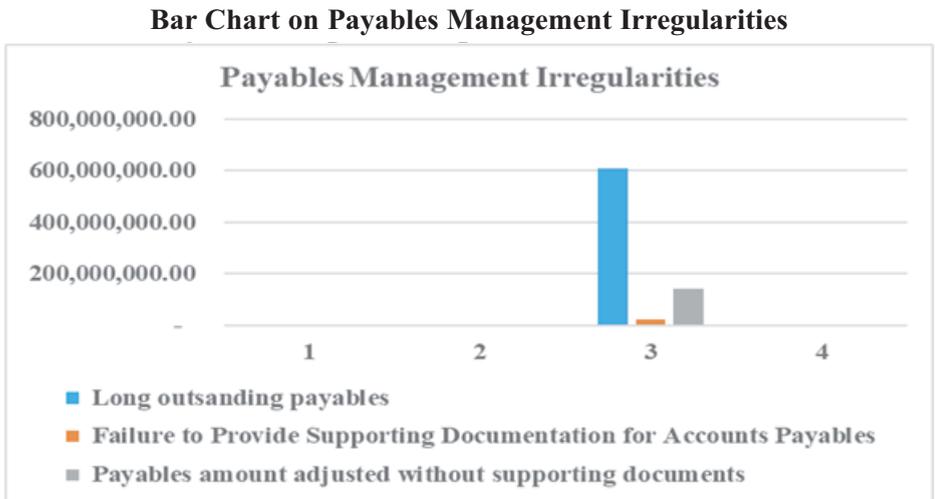


Figure 12: Payables Management Irregularities

(h) Revenue Management Irregularities

The findings in this category relate to the shortcomings of the Councils in collecting, recording and accounting for revenue.

Bar Chart on Revenue Management Irregularities

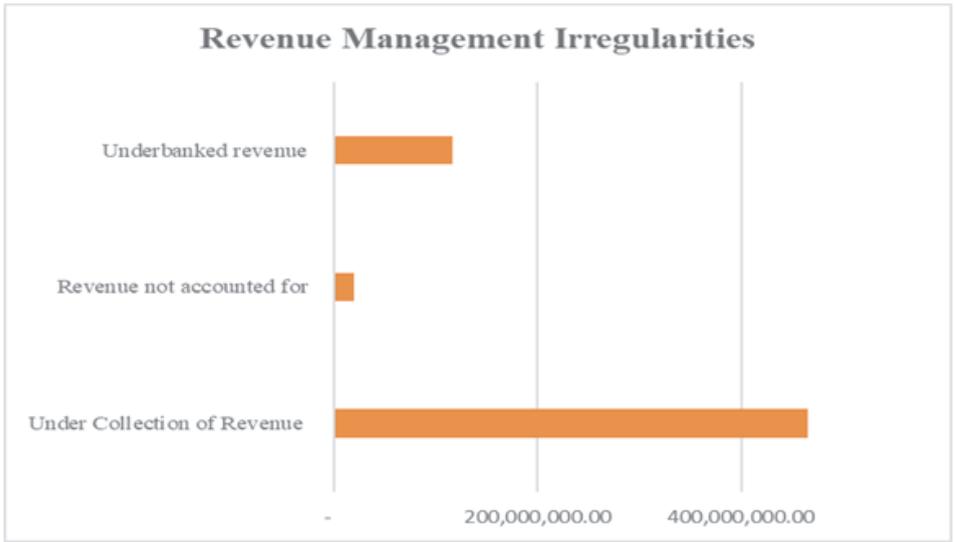


Figure 13: Revenue Management Irregularities

Local Councils’ General Resource Fund Performance For 2021

- 21. In the 2021 financial year the Central Government made transfers to Local Authorities in respect of General Resource Fund (GRF), District Development Funds, Constituency Development Fund, Sector Funds and Infrastructure Development Funds from a total approved budget of K46.1 billion which was revised to K46.6 billion. Actual Expenditure was K43.7 billion resulting into an under expenditure of K2.9 billion. This translates to 94 percent expenditure over the revised budget. Table 2 below has the details.

Table 2: Local Councils' Central Government Transfers Performance For 2021

Council	Vote	Approved Budget 2020/2021 MK	Revised Estimates 2020/2021 MK	Actual Expenditure 2020/2021 MK	Variance 2020/2021 MK	Actual as % of Revised Budget 2020/2021
Blantyre City	601	961,753,000	1,206,201,000	765,985,191	440,215,809	64%
Lilongwe City	602	769,698,699	769,698,699	581,677,403	188,021,296	76%
Mzuzu City	603	442,968,758	442,968,758	380,654,576	62,314,182	86%
Zomba City	604	344,293,038	344,293,038	297,192,443	47,100,595	86%
Kasungu Municipality	806	57,301,948	57,301,948	57,064,523	237,425	100%
Luchenza Municipality	807	56,370,800	56,370,800	40,882,186	15,488,615	73%
Mangochi Town	807	60,030,397	60,030,397	56,777,609	3,252,788	95%
Balaka District	901	1,125,529,301	1,240,746,794	1,207,216,451	33,530,343	97%
Blantyre District	902	1,847,626,098	1,847,626,102	1,541,345,290	306,280,812	83%
Chikwawa District	903	1,537,924,163	1,537,924,163	1,531,985,766	5,938,397	100%
Chiradzulu District	904	1,064,144,116	1,144,144,116	724,494,899	419,649,217	63%
Chitipa District	905	1,140,789,102	1,140,789,102	1,134,300,863	6,488,239	99%
Dedza District	906	1,950,401,722	1,950,401,722	1,604,563,372	345,838,350	82%
Dowa District	907	1,729,528,147	1,729,528,147	1,554,409,259	175,118,888	90%
Karonga District	908	1,225,570,118	1,225,570,118	1,244,645,663	-19,075,545	102%
Kasungu District	909	2,098,080,671	2,124,731,524	2,147,034,323	-22,302,799	101%
Likoma District	910	320,021,667	320,021,670	283,190,671	36,830,999	88%
Lilongwe District	911	3,890,126,644	3,890,126,644	3,706,192,498	183,934,146	95%
Machinga District	912	1,642,782,429	1,642,782,429	1,457,372,285	185,410,144	89%
Mangochi District	913	2,410,208,537	2,410,208,537	2,433,681,949	-23,473,412	101%
Mchinji District	914	1,518,528,322	1,518,140,322	1,506,399,714	11,740,608	99%
M'mbelwa District	915	2,762,604,710	2,762,604,710	2,684,537,430	78,067,280	97%
Mulanje District	916	1,800,095,548	1,800,095,548	1,761,340,121	38,755,427	98%
Mwanza District	917	796,648,319	816,648,319	715,359,281	101,289,038	88%
Neno District	918	732,578,369	732,578,369	681,475,644	51,102,725	93%
NkhataBay District	919	1,319,604,848	1,319,604,848	1,226,784,385	92,820,463	93%
Nkhota kota District	920	1,351,428,400	1,351,633,400	1,270,038,468	81,594,932	94%
Nsanje District	921	1,173,475,171	1,173,475,171	1,185,050,227	-11,575,056	101%
Ntcheu District	922	1,703,007,763	1,703,007,763	1,611,760,577	91,247,186	95%
Ntchisi District	923	1,053,783,739	1,053,783,739	1,058,658,953	-4,875,214	100%
Phalombe District	924	1,181,053,017	1,181,053,017	1,181,735,367	-682,350	100%
Rumphi District	925	1,086,205,500	1,086,205,500	1,109,209,894	-23,004,394	102%
Salima District	926	1,319,077,913	1,319,077,913	1,247,810,505	71,267,408	95%
Thyolo District	927	1,755,453,000	1,755,453,000	1,767,823,040	-12,370,040	101%
Zomba District	928	1,912,653,808	1,912,653,808	1,925,602,744	-12,948,936	101%
Total		46,141,347,782	46,627,481,134	43,684,253,569	2,943,227,565	93.80%

PART III

AUDIT RESULTS OF THE COUNCILS

General audit observations

22. An audit of financial statements of the Local Councils for the year ended 30th June 2021 was completed in July, 2022. Between July, 2022 and August, 2022, I engaged the Controlling Officers (District Commissioners and Chief Executive Officers) to provide responses to the observations raised in their respective management letters. The findings included in this report relate to the observations that were not satisfactorily responded to in the Management Letters. Observations of some Councils may not necessarily appear in this report because they were resolved at management level.

The audit which was financial and compliance in nature was conducted in all the thirty five (35) Councils namely Balaka District, Blantyre City, Blantyre District, Chikwawa District, Chiradzulu District, Chitipa District, Dedza District, Dowa District, Karonga District , Kasungu District, Kasungu Municipality, Likoma District, Lilongwe City, Lilongwe District, Luchenza Municipal, M'mbelwa, Machinga District, Mangochi District, Mangochi Town, Mchinji District, Mulanje District, Mwanza District , Mzuzu City, Neno District, Nkhatabay District, Nkhotakota District, Nsanje District, Ntcheu District, Ntchisi District, Phalombe District, Rumphu District, Salima District, Thyolo District, Zomba City and Zomba District.

There were a number of irregularities that were found during the audit. They are summarized in the paragraphs below:

Expenditure Management Irregularities

23. The audit has revealed that most Councils failed to manage expenditure in accordance with provisions in the Public Finance Management Act, 2003 and other financial regulations such as Treasury Instructions, Desk Instructions, CDF Guidelines, DDF guidelines and LA Accounting and FM procedures Manual among others. This was observed through irregularities such as: Unjustifiable subsistence allowances, Unaccounted for Funds, Expenditures made without following procedures (Irregular expenditure), Misallocation of Funds (funds spent on different functions other that which parliament approved), Failure to remit PAYE taxes to MRA, Failure to process transactions through IFMIS, Failure to administer deceased estates and Failure to recover loans and advances

Preparation of Financial statements.

24. Local Government Act of 1998 Sections 53 (1) requires all Councils to keep proper books of accounts and other records from which financial statements or final accounts will be produced. The audit has revealed that Local Authorities are preparing Financial Statements in accordance with generally accepted Accounting Principles i.e., in accordance with IPSAS Accrual stage three (3). However, there were a number of irregularities that contributed to such unfavourable audit opinion as summarised above and also detailed in subsequent paragraphs.

Specific audit findings

BALAKA DISTRICT COUNCIL

25. An audit of Balaka District Council for the year ended 30th June, 2021 was completed in February 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Non-Current Assets Without Title Deeds And Registration Certificates:-K1,665,875,555

Generally accepted accounting practice requires that the non-current asset should have the registration certificates and title deed to satisfy the rights and obligations assertion.

An inspection of fixed asset register revealed that noncurrent assets totaling **K1,665,875,555.00** recorded in the fixed asset register had no title deeds and registration. There was a risk of overstated assets or understated assets as some assets may not be accounted for in a long run.

(b) Outstanding Revenue From Allocation Of Plots:- K13,315,400.00

Accountant General's Desk Instructions (2007), Sections 15.5.1 states that officers responsible for assessment and collection of revenue shall be familiar with applicable laws and regulations. Furthermore, Section 15.5.2 states that all departments responsible for collecting revenue shall prescribe suitable Registers or Forms to record the amount due for collection and the amounts collected for example, Invoice Register, Demand notices and Collection Registers for taxes etc.

An inspection of revenue documents for the period under review revealed that the council issued forty two (42) plots to applicants in 2019 at a total fee of K45,000,000.00. However, twenty-six (26) plots worth K31,484,600.00 were paid for leaving a balance of K13,315,400.00. The remaining amount relates to sixteen (16) plots. As at the date of audit, three years had elapsed after the allocation and the Council was yet to collect the balance due. Moreover, the Council could not provide evaluation reports and personal files for applicants to the audit team to assess the validity of the transactions. The Council might have lost this revenue.

BLANTYRE CITY COUNCIL

26. An audit of Blantyre City Council for the year ended 30th June 2021 was completed in August, 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Long Outstanding Receivables: -K6,631,087,346.49

Local Authority Accounting and Financial Management Procedures Manual (2020), Paragraph 17.1.1 states that in all cases, Local Authorities must put in place mechanisms that would ensure that debtors are recovered within 60 days for property rates and 30 days for Trade and Sundry Debtors and within set repayment periods.

A review of financial statements and their supporting schedules disclosed that Blantyre City Council had outstanding receivables over 90 days amounting to **K6,631,087,346.49**. This may lead to financial loss to the Council through doubtful debts and write offs, hence, failure to obtain value for money.

BLANTYRE DISTRICT COUNCIL

27. An audit of Blantyre District Council for the years ended 30th June, 2021 was completed in January 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Unrealistic Budget Estimation of Projects:- K103,094,484.00

Treasury Instruction (2004), Section 4.4.2 states that each Controlling Officer is responsible for ensuring that an accurate and complete budget submission is prepared in the form prescribed for each financial year, and that the following financial management responsibilities are met: –

- a. forecasts are as accurate as possible;
- b. forecasts take account of all relevant information available at the time they are prepared;
- c. forecasts are free from methodological and arithmetic error;
- d. forecasts are subjected to appropriate internal and external quality assurance with respect to methodology and timeliness; and
- e. requirements are met with respect to timeliness, completeness, accuracy and format.

An inspection of projects under District Development Fund revealed that the Council made unrealistic budget estimation of projects. This is because out of eight (8) projects worth K241,094,484.00 only half of the projects had been completed. The remaining four (4) projects worth **K103,094,484.00** had not yet started by the end of the financial year.

(b) Selective Valuation Of Same Class Of Assets: - K30,964,300.00

International Public Sector Accounting Standards (IPSAS) 17, paragraph 51 requires that if an item of Property, Plant and Equipment (PPE) is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued.

An inspection of the fixed asset register revealed that Mahindra tractor and a trailer were reported at revalued amounts of K6,458,976.00 and K2,798,889.00 respectively while a grader was reported at a cost of K30,964,300.00. All three assets belong to the same class of Property, Plant and Equipment. This is contrary to the requirements of IPSAS 17.

CHIKWAWA DISTRICT COUNCIL

28. An audit of Chikwawa District Council for the year ended 30th June, 2021 was completed in February 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Unsupported Donor Receipts Adjusted Figure: - K302,639,603.35

Public Finance Management Act (2003), Section 10 (1)(d) states that Controlling Officers are responsible for ensuring that all accounts and records relating to the functions and operations of the Ministry are properly maintained.

An inspection of financial statements disclosed that donor receipts adjusted figure amounting to **K302,639,603.35** had no supporting schedules therefore could not be verified.

(b) Deposit Slips Without Revenue Collectors' Summary Sheets: - K73,190,932.43

Treasury Instructions (2004), Section 5.6.4 states that revenue collectors may collect and account for revenue and other public moneys falling within their control in accordance with instructions issued by the designated receiver of revenue.

An inspection of deposit slips and general receipts for revenue collected amounting to **K73,190,932.43** disclosed that there were no revenue collectors' summary sheets. It was therefore difficult to ascertain the accountability of the actual amount collected as well as those deposited.

(c) Unrelated (DDF) Payments : -K11,971,933.37

District Development Fund (DDF) guidelines (2020) (revised), Section 6.0 among other fiduciary and accountability arrangements state that DDF shall not finance recurrent expenditures and that, projects such as painting of buildings, maintenance of vehicles, procurement of spare parts, payment of honorarium, for instance, do not qualify for such transactions.

An inspection of DDF payment vouchers and other related documents disclosed that DDF funds amounting to **K11,971,933.37** were used to finance various recurrent expenses such as payment for motor vehicle maintenance, fuel, and allowances contrary to the regulation stated above.

(d) Finished Projects Not Being Used (White Elephant): - K39,036,020.07

The revised District Development Fund (DDF) (2020), Section 2 stipulates that the criteria for selecting the projects to be considered for financing are the District Development Plans and Annual Investment Plans and that the projects have been justified on their economic, social, technical, financial and institutional feasibility.

A physical inspection to some projects revealed a number of finished projects but not in use. This made it difficult to understand why the projects were chosen in the first place. The projects costed **K39,036,020.07**. The final works progress certificates were issued out as depicted in the table 3 below:

Table 3: Finished Projects Not Being Used (White Elephant)

Project Title	Total Estimated Cost MK	Status of the Project	Start Year	Finish Year	Remarks
Nansengwe market shed	8,700,000	Completed	2016	2021	Not in use
Ngabu Conjunction Market	8,700,000	Completed	2017	2021	Not in use
Miseu 4 market Shed	8,700,000	Completed	2017	2021	Not in use
Bereu Police Post	12,936,020	Completed	2017	2021	Not in use
TOTAL	39,036,020				

CHIRADZULU DISTRICT COUNCIL

29. An audit of Chiradzulu District Council for the year ended 30th June, 2021 was completed in March 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) General Receipts Book Not Presented For Audit

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

An inspection of security documents register against general receipt books disclosed that general receipt book with serial numbers from 056651 – 056800 was not presented for audit review. The accountability of funds contained therein could therefore, not be ascertained.

(b) Payments Without Supporting Documents: -K15,379,855.00

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

An inspection of the payment vouchers disclosed that payments worth **K15,379,855.00** presented for audit had no supporting documentation. In the absence of documents, it was difficult to ascertain if the payments were genuine.

(c) Procurements Without The Approval Of The IPDC:- K15,431,775.03

The Public Procurement & Disposal of Assets Act (2017), Section 26 (2) (a-g) outlines the functions of the Internal Procurement & Disposal Committee in all procuring and disposing entities as; ascertaining the availability of funds to pay for each procurement; approving the methods of procurement and disposal to be used in each case; approving the procurement and disposal plans for the procuring and disposing entity; appointing the chairperson of the bid opening from amongst its membership; appointing ad-hoc evaluation team for the examination, evaluation and comparison of bids; reviewing and approving bid evaluation reports and reviewing and approving any contract amendments.

An inspection of payment vouchers and Internal Procurement and Disposal of Assets Committee minutes disclosed that during the period under review, the office procured some goods and services amounting to **K15,431,775.03** without the IPDCs' approval, which is contrary to the aforementioned requirement.

CHITIPA DISTRICT COUNCIL

30. An audit inspection of the financial and other information for Chitipa District Council for the year ended 30th June, 2021 was completed in February 2022. The audit disclosed some weaknesses in the financial controls as in highlighted the following observations;

(a) Failure To Present Project Files And Annual Investment Plans For Audit Inspection

Guidelines for the utilization of the District Development Budget in Councils District Development Fund (2020) (Revised), Section 3.0 states that projects should be extracted from the District Development Plans (DDPs) especially the Annual Investment Plans (AIPs) formulated in accordance with the District Development Planning System Handbook and for proper record keeping, each project is supposed to have a project file.

Contrary to the requirement, Chitipa District Council did not produce project files and AIPs for audit inspection. It was difficult for the audit team to examine project life details. The DDF project files not presented for audit were for Mbirima New Market Shed, Lufita Market Slaughter House and Chitipa Boma New Market Shed. Those for CDF are Therere Health Center Toilet, Chisenga Ground, Namapasa Health Centre Construction, Malangwe Bridge, Namtegha to Muwona Water Supply Project, Drilling 3 Boreholes at Ilomba, Mbirima Market, Mwenga Concrete Bridge, Drilling a Borehole at Nsato FP School, Milimo Bridge, Kalanga School Block, Kalanga Clinic HSA House and Kalowe Bridge Construction.

(b) “For Staff” Payments: -K17,224,420.00

Accountant General Circular Reference number T4400 dated 3rd April, 2012, stipulates that payments should be made by cheque and deposited in respective accounts of the recipients of public funds. Further, Treasury Instruction (2004), Section 5.19.3 requires that wherever possible payments for all vouchers must be made by cheque or direct debit to a bank account. However, payments of K1,000 or less may be made in cash from the standing imprest depending on prevailing circumstances.

Contrary to the above requirement, it was revealed that the Council made payments amounting to **K17,224,420.00** in the name of staff instead of the beneficiaries’ bank account numbers.

(c) Non-Existence Of Internal Audit Function

Local Authority Accounting and Financial Management Procedures Manual (2009), Section 1.3.4 states that the District Commissioner must ensure that an effective system of internal control is developed and maintained including an effective internal audit function.

It was, however, observed that the Council did not have the internal audit function.

DEDZA DISTRICT COUNCIL

31. An audit of Dedza District Council for the year ended 30th June, 2021 was completed in March 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Failure To Bank Revenue (Cash) Promptly: -K12,128,184.00

Treasury Instructions (2004), Section 5.6.2 requires that Controlling Officers of Ministries Department and Agencies (MDAs) shall manage revenue efficiently and effectively by implementing appropriate processes that provide for identification, collection, recording, safeguarding and reconciliation of information in respect of revenue. Section 5.7.2 (e) further states that sound cash management includes collecting revenue when it is due and banking it promptly.

An inspection of general receipt books, bank deposit slips and bank statements revealed that the Council collected cash amounting to **K12,128,184.00** from market fees, business licenses and assessed rates but failed to bank it promptly as required by the Treasury Instructions mentioned above. It was noted that the Council took an average of over one month to bank the revenue in question.

(b) Used General Receipt Books (17) Not Produced For Audit

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

An inspection of security document registers and used general receipt books revealed that Seventeen (17) general receipt books were issued to different revenue collectors. However, at the time of the audit they were not produced for audit inspection. Therefore, it was difficult to ascertain whether the revenue collected by the revenue collectors in question was properly accounted for.

(c) Payables Shown In The Financial Statements Not Supported With Documentary Evidence:- K8,860,679.00

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

preparation of financial statements as required by section 79 and enable them to be conveniently and properly audited.

An inspection of the financial statements revealed that the payables amount of K129,020,917.00 included **K8,860,679.00** worth of payables which had no documentary evidence to justify their existence. The Council included the same payables in the 2019/2020 financial year.

(d) Payments Without Supporting Documents: -K37,874,658.00

Treasury Instructions (2004), Section 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed for easy and ready accessibility upon request by Ministry of Finance and National Audit Office staff.

An inspection of payment vouchers for the period under review revealed that payment vouchers totaling **K37,874,658.00** were submitted for audit review without supporting documents such as quotations, invoices, receipts and loose minutes. In the absence of the supporting documents, it was difficult to ascertain whether the payments were a proper charge against public funds.

(e) Illegal Application of ORT Funds To Refund DDF Funds: - K24,463,455.27

Public Finance Management Act (2003), Section 10 subsection I (h) and (I) 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; and all necessary precautions are taken to safeguard public resources.

Public Finance Management Act (2003), Section 25 as read together with Treasury Instruction of (2004), Section 4.14.1 states that specific approval is required before any allocations can be vired or transferred between outputs/programme/item within the same Vote.

Contrary to the requirements above, an inspection of payment vouchers and cash books for ORT revealed that funds amounting to **K24,463,455.27** were paid from Agriculture, Education and Health sectors to refund DDF funds which the sectors illegally used and led to over expenditure during 2019-2020 financial year.

(f) Floating of CDF Guidelines and Public Procurement and Disposal Of Assets Act In The Implementation CDF Projects: K45,478,569.66

Constituency Development Fund guidelines (2014) number 5 stipulates that, a Member of Parliament should at least once a year organize a meeting with chiefs, councilors and Area Development Committees/Urban Development Committees (ADCs) within the constituency to identify and prioritise projects that meet the socio-economic needs of the people in the constituency. Guideline number 6 further stipulates that the Council shall appraise all new projects submitted by the Member of Parliament and the District Commissioner shall assign the director of public works and other relevant sector staff to ensure that all new infrastructural projects are appraised so that they can adhere to acceptable government standards.

Public Procurement and Disposal of Assets Act (2017), Section 30 stipulates that all public procurement proceedings shall be conducted in a manner which promotes transparency, accountability, non-discrimination, fairness, open competition, anonymity, economy, efficiency and responsiveness to modern information and communications technology

Contrary to the above requirements, an inspection of payment vouchers together with project files revealed that projects worth **K45,478,569.66** were implemented without any proof of project identification and appraisal by the ADC and the Council respectively.

It was further revealed that these projects were implemented without procurement plans, floating of adverts inviting bids, bid evaluation and Internal Procurement and Disposal Committee approval.

(g) Abuse of CoVID-19 Funds: - K776,000.00

Public Finance Management Act (2003), Section 10 subsection I (h) and (I) 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; and all necessary precautions are taken to safeguard public resources.

Treasury Instructions (2004) Section 4.14 (1) requires that all expenditures should be charged to an appropriate vote and that expenditure should be classified strictly in accordance with estimates. The provisions further require that funds should be spent on the intended activities otherwise Treasury approval must be sought to transfer funds from one expenditure line to another as represented by codes in the IFMIS.

An inspection of payment vouchers and cash books revealed that Covid-19 funds amounting to **K776,000.00** were diverted to pay a contractor who was initially engaged under GIZ Project (Support for Dedza District Health Sector Development) to service boreholes within the Council. The GIZ discontinued the project after noticing irregularities in the procurement and payment of allowances. At the time of this occurrence, the Council had a balance of K776,000.00 to be paid to the contractor. The Council used part of the COVID -19 funding to settle the balance. However, this was done without getting necessary approval from Treasury as the COVID-19 funding was based on the budget which did not include this element. The Contractor was Mphangwe General Suppliers and was paid through cheque number 40421 dated 08/01/2021.

(h) Deceased Estate Funds Not Recorded In The Third-Party Money Register: -K20,680,529.88

Local Authority and Finance Management Procedure Manual (2009), Paragraph, 15.3.2 requires that the receipted money shall be recorded in the Third-Party Money Register (TPMR). The receipted funds shall be given an identification number in the TPMR with reference to the original Paper Money Register (PMR).

An inspection of payment vouchers, PMR and TPMR and bank statements revealed that deceased estate funds amounting to **K20,680,529.88** were not entered in the TPMR. Therefore, it was not possible to establish if the beneficiaries received the funds.

(i) Payment For Deceased Estate(Minors) Without Raising Payment Vouchers: -K24,359,779.51

Accountant General's Desk Instructions (2007), number 6 states that a payment voucher is the authority by which a Controlling Officer authorises the cashier to pay money from public funds. Payment vouchers are the basis for entry of transactions in the accounts and shall be carefully prepared.

An inspection of cash books for the deceased estate revealed that payments amounting to **K24,359,779.51** made for minors' beneficiaries had no payment vouchers. It was therefore, difficult to establish if the payments in question were genuine charge against the public funds.

DOWA DISTRICT COUNCIL

32. An audit inspection of the financial and other information for Dowa District Council for the year ended 30th June, 2021 was completed in March, 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Failure To Present General Receipt Books For Revenue Collecting Centres: -K14,054,000.00

Public Audit (Amendment) Act No 10 of 2018, Section 6 (2) stipulates that the Auditor General is to audit and examine transactions books and accounts, and other financial records associated with any projects, programme and other activity receiving funding in whole or in part from public monies of which documents to support this work has to be provided for the audit.

Contrary to the provision above, an examination of general receipt books and summary sheets of collected revenue revealed that, the Council did not present for audit review general receipt books used by the intermediaries amounting to **K14,054,000.00**. That made it difficult for auditors to confirm completeness of revenue collected throughout the period under review. Refer to Table 4 below.

Table 4: General Receipt books for Revenue Collecting Centres Not Presented

Collection Centre	Amount (K)
Mponela	2,679,700.00
Boma	5,071,200.00
Nambuma	1,327,900.00
Madisi	796,600.00
Mkukula	4,178,600.00
Total	14,054,000.00

(b) Revenue General Receipt Books Not Submitted For Audit and Not In Cashbook

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

An examination of revenue general receipt books against the security register revealed that eleven (11) general receipt books distributed for revenue collection were not submitted for audit. Furthermore, it was noted that there was no record of revenue collected from these general receipt books in the cashbook. Therefore, it was difficult for the auditors to ascertain the accountability of the books in question.

(c) Full Contract Amount Paid For Partly Completed Project: - K1,500,000.00

Treasury Instruction number 5.19.1 of 2004 states that payment for goods and services received shall be effected upon verification and confirmation that goods were received or that services were rendered. Constituency Development Fund Guidelines (2014), Number 16(4) requires that final payment on projects should be done after issuance of certificate of completion.

An examination of payment vouchers, labour contract and physical verification revealed that a full contract amount of **K1,500,000.00** was paid for the construction of Mtsukamakoza Clinic before completion of the project. The audit established that the project was not complete even at the time of audit.

KARONGA DISTRICT COUNCIL

33. An audit inspection of the financial and other information for Karonga District Council for the year ended 30th June, 2021 was completed in February 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) CDF Materials Purchased But Not Delivered: -K4,244,428.00

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

An inspection of payment vouchers, delivery notes, invoices and stores ledgers revealed that CDF materials purchased during the period under review amounting to **K4,244,428.00**, were not delivered to the sites. As a result, it was difficult to ascertain the accountability of the materials

(b) CDF Funds Not Spent: -K34,352,349.00

Public Finance Management Act (2003), Section 10 (h) (i) states that every Controlling Officer should ensure that all expenditures are incurred with due regard to economy, efficiency and effectiveness and avoidance of waste and all necessary precautions are taken to safeguard public resources.

An inspection of financial documents such as cash books, bank statements and funds notification reports revealed that Karonga District Council received a sum of K200,000,000.00 for the five (5) constituencies and total expenditure was K165,647,650.00 leaving **K34,352,350.00** funds not spent. This inefficiency deprived the citizens the much needed development in their constituencies.

(c) Under Banking Of Revenue: -K10,078,214.00

Local Authorities Accounting and Financial Management Procedures Manual (2020), Section 2.1.2 (c) states that all monies collected from any source should be deposited intact into the Local Assembly's bank account.

An inspection of general receipts against bank deposit slips revealed that the Council collected revenue amounting to K148,199,299.00 but banked K138,121,084.00 only leading to an under-banking of **K10,078,214.00**. It was, therefore, difficult for the audit team to determine how the under-banked revenue was accounted for.

(d) Fuel Not Accounted For Through Fuel Ledgers And Logbooks: - K12,547,608.00

Treasury Instructions (2004), Section 11.7.1.2 requires that where stores are received in bulk for subsequent issue in small lots, transactions will be entered in a ledger. It further states that stores must be subject to reasonable control to ensure that they are not pilfered or wasted.

An inspection of payment vouchers, fuel registers and logbooks revealed that fuel amounting to K12,547, 608.00 could not be traced to motor vehicle logbooks.

Consequently, the audit team could not establish the propriety and accountability of the fuel resources.

(e) Mis-procurement Of Stores: -K27,483,882.00

Public Procurement and Disposal of Asset Act of 2017, Section 61(1) stipulates that, a procuring and disposing entity may engage in a framework agreement procedure, as prescribed under the agreements regulations.

An inspection of the procurement plan and an enquiry from management of Karonga District Council revealed that the Council did not have a framework agreement with its suppliers despite the Council's procurement plan indicating that they needed to have a framework agreement in place. During the year under review, the Council resorted to contract fragmentation by making its procurements through the Request for Quotation procurement method. Therefore, since the Council did not follow the laid down procedures and regulations on this procurement, this was a mis-procurement.

KASUNGU DISTRICT COUNCIL

34. An audit inspection of the financial and other information for Kasungu District Council for the year ended 30th June, 2021 was completed in February, 2022. The audit disclosed some weaknesses in the financial controls as highlighted the following observations:

(a) Long Outstanding Payables: -K16,512,661.39

Local Assembly Accounting and Financial Management Procedures Manual, Section 2.1.7 states that the Local Authorities shall ensure that creditors are paid within the agreed period of the service acquired.

Contrary to the above requirement, the review of financial statements and other records disclosed that payables amounting to K16,512,661.39 have not yet been settled. The amount in question has been outstanding since August 2018.

(b) Understatement Of Net Book Value Figure For Non-Current Assets: -K28,129,624.45

Local Authority Accounting and Financial Management Procedures Manual, Section 2.1.1 states that Local Assembly shall capitalize all assets that are owned by and whose economic benefits shall accrue to the Local Assembly. Construction projects that are in progress shall be treated as work in progress

A review of fixed asset, register and financial statements disclosed that the statement of financial position showed a net book value of K406,042,718 whilst the fixed asset register showed a net book value of K434,172,342.98. Therefore, the figure of net book value disclosed in the statement of financial position was understated by K28,129,624.45.

KASUNGU MUNICIPAL COUNCIL

35. An audit inspection of the financial and other information for Kasungu Municipal Council for the year ended 30th June, 2021 was completed in June, 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Failure To Present Supporting Documentation For Payables For Audit Inspection: -K14,653,356.25

Public Finance Management Act (2003), Section 10 (1) (c) 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.

A review of financial statements revealed that the Council did not produce documents, for audit inspection, such as payables aging analysis, payables reconciliations, IPDC minutes, invoices, delivery notes, goods received notes for payables amounting to K14,653,356.25. In the absence such documents, the audit team failed to prove the accuracy, existence and completeness of the payables figure.

(b) Failure To Produce Evidence Supporting The Annual Performance Of The Council's For Audit Inspection

Public Audit Amendment Act No. 10 of 2018, Section 7 (a) states that for the purpose of fulfilling the functions and duties lawfully conferred or imposed on the Auditor General, the Auditor General and every person authorized by him shall have full access at all reasonable time to all documents, books and accounts, public funds, public securities, Government contracts and books; and accounts relating thereto and subject to audit, and to any place where they are kept.

However, the Council did not produce evidence supporting the performance of the Council during the year under review. Therefore, the audit team failed to assess the Council's achievements against its planned activities.

(c) Payments In The Bank Statement But Not In The Cashbook Or Cheque Dispatch Register: -K25,739,637.66

Local authorities accounting and Financial Management Manual (2009), Section 4.1.5 states that the principal record in respect of cash kept at the Council is the cashbook which records both cash and bank transactions. All receipt and payment transactions must pass through the cashbook. It must be kept up to date and balanced on a daily basis. All transactions that have been receipted should be captured in the system daily.

An inspection of a sample of transactions on the bank statement for development account, the cheque dispatch register and the cashbooks that were presented for audit revealed that payments amounting to K25,739,637.66 were not captured in the cashbook and the payment vouchers were not available for audit inspection. The audit team failed to classify all the payments according to the sectors as the bank statement couldn't provide such information.

(d) Failure to provide Quinquennial Valuation Roll (QVR): - K45,340,442.00

Public Audit Act number 6 of 2018 section 7 (1) (a) states for the purpose of fulfilling the functions and Auditor General duties lawfully conferred or imposed on the Auditor General, the Auditor General and every person authorized by him shall have full access at all reasonable time to all documents, books and accounts, public funds, public securities, Government contracts and books and accounts relating thereto and subject to audit, and to any place where they are kept.

An examination of the Council's revenue cashbook and general receipts revealed that the Council collected revenue in relation to property rates for the year under review amounting to **K45,340,442.00** but the audit team was not provided with the Quinquennial Valuation Roll to verify the revenue generated from the property rates.

(e) Misallocation of funds:- K 17,965,473.70

Public Finance Management Act (2003), Section 25 states that specific approval is required before any allocations can be vired or transferred between outputs. The PFM Act authorizes the Secretary to Treasury, with the approval of the Minister at the request of a Controlling Officer, to direct the virement or transfer of funds between the provisions assigned to programmes/ item under a Head/Vote of expenditure, or to create a new programme/item if the amount appropriated under the Head/Vote is not exceeded. If the Controlling Officer is satisfied that the provision against a programme/item will be inadequate, he may submit an application to the Secretary to the Treasury for virement or transfer funds between a programme/item within the same Vote. The application should be in writing and should be signed personally by the Controlling Officer. In addition, the Local Government Act (1998) section 52 specifically States that the Assembly (Council), may, with the approval of the Local Government Finance Committee, make reallocations of any sum contained in such approved estimates.

Contrary to the requirements, an inspection of expenditure records for the Council revealed that other expenditures amounting to K17,965,473.70 were charged against wrong expenditure codes without Treasury approval.

LIKOMA DISTRICT COUNCIL

36. An audit inspection of the financial and other information for Likoma District Council for the year ended 30th June, 2021 was completed in February 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations

(a) Under-Utilisation Of CDF Funds:- K29,364,762.75

Public Finance Management Act (2003), Section 10 (h) (i) states that every controlling officer should ensure that all expenditures are incurred with due regard to economy, efficiency and effectiveness and avoidance of waste and all necessary precautions are taken to safeguard public resources.

An inspection of receipts and expenditure records for CDF revealed that Likoma District Council was allocated and funded K40,000,000.00 to spend on various CDF Projects. However, it was noted that the Council only managed to spend K10,635,237.25 leaving a balance of K29,364,762.75 which the Council could not access after closure of the financial year under review. Surprisingly, physical verification on some of the council's projects revealed that they were uncompleted due to what was explained as lack of resources.

LILONGWE CITY COUNCIL

37. An audit inspection of the financial and other information for Lilongwe City Council for the year ended 30th June, 2021 was completed in July 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Discrepancies In Banked Revenue From Market Fees And That Reported In ARMIS System: -K74,247,230.00

Accountant General Desk Instructions (2007), Section 12.1 states that bank reconciliation is an accounting procedure for agreeing the balance as per bank statement with the balance as per cash book. In addition, Treasury Instructions (2003), Section 5.6.2 states that the Controlling Officer of a Ministry or Department must manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for identification, collection, safeguarding, recording and reconciliation of information in respect of revenue.

An interview with management of the Council and review of financial records revealed that in 2019, the Council entered into a contract with National Integrated Technologies Limited (NITEL) for supply of Automated Revenue Management Information Systems (ARMIS). Section 1.2.7 of the agreement stipulates that ARMIS is a technological platform that automates fee collection processes which increases transparency, accountability and efficiency by providing 24/7 system availability, authentic receipts, real time visibility of all transactions, enforcement and verification facilities and easy reconciliation through availability of customised reports.

Section 36.1 (j) of the agreement states that NITEL shall operate a dedicated LCC ARMIS holding account specifically for funds collection. This account will be operated by NITEL at designated bank. Account name will be determined but a suitable reference to NITEL/LCC Account will be visible to LCC designated personnel. Furthermore, Section 37.1 states that funds payable to LCC & NITEL will be paid out of the holding account in line with defined sharing proportions.

However, despite the supposed benefits of ARMIS described in the above paragraph, the system has not produced the desired results. An inspection of the reconciliation statements revealed that there were discrepancies between the revenue banked and that reported in the ARMIS. In most months, ARMIS holding account reported higher amounts than what was banked as such, ARMIS reported K74,247,230.00 more revenues than what was actually banked during the period under review.

**(b) Revenue From Car Park Fees Not Accounted For:-
K20,096,000.00**

Treasury Instructions (2004), Section 5.7.2 states that for purposes of these Instructions, sound cash management includes (e) collecting revenue when it is due and banking it promptly. In addition, Accountant General Desk Instruction 2007 Section 15.1.1 states that revenue control and accounting has three objectives: (i) To ensure that all revenue due is promptly collected (ii) To ensure that revenue collected is promptly accounted for (iii) To ensure that adequate internal controls exist to prevent loss or misappropriation of revenue.

The Council issues receipt books to revenue collectors which are used to collect revenue from various designated car parking spaces within the city boundaries. Once these books have been used up, they are returned to the Council and reconciled against the actual amounts banked in to ensure that all the monies that should have been collected was collected and banked intact.

An inspection of revenue receipts against the bank reconciliation statements revealed that K20,096,000.00 was not reflected on the bank statement as the receipts remained unreconciled.

**(c) Suspicious Procurement Of An Automated Car Park System:-
K8,203,066.00**

Treasury Instructions (2004), Section 5.13.1 (f) and (g) states that adequate internal controls must exist within each Ministry and Department. Internal control is defined in the PFM Act and is recognised as including all the controls and procedures adopted to ensure that within Government, and within each entity in Government, the following control objectives are met, all assets are safeguarded against loss or destruction, and unauthorized use, resources are employed and managed in an effective, economic and efficient manner.

An inspection of payment vouchers revealed that the Council undertook a project to automate the central market car park with the aim of increasing its revenue collection as parking would be charged on an hourly basis. The system would automatically calculate the duration the car was parked at the designated space/place based on the time the car entered the car park against the time it exited.

However, an inspection of procurement records disclosed some flaws in the procurement process as a complete file on this procurement was not made available to the auditors. This made it difficult for the auditors to determine if proper procedures were followed for the project. Furthermore, physical inspection of the central car park, revealed that the project had not come to fruition despite the fact that

out of K17,000,000 contract price, K8,203,066.00 had already been spent on the project. It is doubtful that the project will be completed.

(d) Failure To Effect Deductions On Advances: -K12,989,921.67

Treasury Instructions (2004), Section 5.5.2.1 states that recoveries of advances made to officers whose salaries are paid through automated payments system will appear as deduction on the payroll.

An inspection of payroll and advances records revealed that the Council paid advances to officers amounting to K12,989,921.67 but failed to effect deductions. Some of the advances indicated that no deductions had been made on the initial amount.

(e) Long Outstanding Property Rates Receivables Other Than Government With No Movement Since 2017:- K5,614,080,263.07

In the 2019/2020 financial year, the Council took an initiative to improve its debt by soliciting the services of some legal firms to collect debt on the Council's behalf. At the time of engaging the legal firms, the Council referred any debtor who was owing the Council an amount from K5million kwacha and above. However, the initiative seemed not to have benefited the Council.

An inspection of debtors' schedule for 2020/2021 financial year revealed that trade receivables amounting to K5,614,080,263.07 have been in the Council's books since 2017. Some of these were those that had been referred to the legal firms in the previous financial years and some are those that initially had small amounts but have increased as the Council continues to bill them. Worse still, there have been no movement in these debts. In other words, no payments have been made by any of these debtors since 2017.

(f) Long Outstanding Government Debt:- K705,350,060.76

Local Government Act (1988), Section 85 states that the Government shall pay to the Assembly fifty per centum of the amount on its assessable property.

An inspection of debtor's schedule revealed that government institutions/departments owe Lilongwe City Council K705,350,060.76. This figure has shown a growing trend from the previous years.

LILONGWE DISTRICT COUNCIL

38. An audit inspection of the financial and other information for Lilongwe District Council for the year ended 30th June, 2021 was completed in March, 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Operating Without A Strategic Plan

Circular letter reference no. C/EAD/6/3/11 dated 2nd January 2018 from Chief Secretary to Government encourages MDAs to develop sectoral policies and strategies to ensure smooth implementation of the National Development Strategy. Government emphasizes the need to align these sectoral policies and strategies to the national development agenda. The MDAs are also being requested to involve Sectoral Policy Analysis (SPA) sector in Economic Affairs Division of the Ministry when formulating such policy documents.

During the time of the audit, it was noted that Lilongwe District Council did not have an approved Strategic Plan for 2020/2021 fiscal year. As a result, it was difficult for the audit team to analyze and assess the effectiveness of the implementation of its programmes and activities since the annual plans are supposed to cascade down from approved strategic plan.

(b) Outstanding Plots Fees' Receivables:- K74,188,000.00

Treasury Instructions (2004), Section 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, paragraph 1 and 4 of the conditions of the contract between the tenant and the Council stipulates that the full amount should be paid within three months from the time the offer is granted. It further says that after expiry of 3 months and if payment is not completed be repossessed by Lilongwe District Council and any money that was paid will be refunded to the applicant without interest with a deduction of 10%.

A review of Lilongwe District Council financial statements and their supporting schedules disclosed outstanding receivables amounting to K74,188,000.00 which had not been collected as at 30th June 2021.

LUCHENZA MUNICIPAL COUNCIL

39. An audit inspection of the financial and other information for Luchenza Municipal Council for the year ended 30th June, 2021 was completed in June 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Improper Use Of ORT Funding: -K8,575,079.00

Central Government Instruction, as quoted in minutes of management meeting of Luchenza Municipal Council, held on 2nd March, 2021, states that only 40% of ORT should go to Councillors salaries and the remaining should come from local revenue.

An inspection of Council's ORT disclosed that for the 5 months' period from July to November, 2020, the Council received funding from Central Government amounting to K14,567,105.00. Out of this amount, K8,575,079.00 was used to pay Councillors' wages representing 59%.

(b) Failure To Provide Pension For Direct Employees

Pensions Act (2011), Section 9 (1), obliges every employer to make provision for every person under his employment to be a member of a registered pension fund.

An inspection of payroll records for Luchenza Municipal Council disclosed that the Council's members of staff were not on pension. The financial report for the entity does not provide for any post-employment benefit accruing to staff members in line with the requirement of the law.

(c) Failure To Make A Surcharge On Amounts That Remain Unpaid For Over Two Months:- K2,977, 491.00

Local Government Act (1998), Section 86 (2) & (3) state that The Assembly shall make a surcharge on any rate remaining unpaid sixty days after the date on which such rate becomes payable, such surcharge shall be payable from the date on which the rate first became payable and may be recovered in the like manner. Further, the Act states that the surcharge made shall be calculated at the rate of four per centum per month or part thereof

An inspection of revenue from property rates revealed that the Council did not charge interest amounting to K2,977,491.00 on debts that remained unpaid in excess of two (2) months from invoice dates.

M'MBELWA DISTRICT COUNCIL

40. An audit of M'mbelwa District Council for the year ended 30th June, 2021 was completed in March 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Council Assets Not Revalued

Local Authority Accounting and Financial Management Procedures Manual (2009), Chapter 2.1.1 states that fixed assets should be reflected at their fair values in the balance sheet and that 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. The revaluation exercise shall be undertaken by qualified valuers.

An inspection of assets records revealed that non-current assets at M'mbelwa District Council have taken more than five years without valuation.

(b) Underbanked Revenue:- K31,910,956.10

Local Authority Accounting and Financial Management Procedures Manual (2009) Chapter 2.1.2 (c) requires that all monies collected from any source should be deposited intact into the Local Assembly's bank account.

Contrary to the above quoted requirement, the Council collected a total of K274,555,616.00 as per the reviewed general receipts and banked K242,644,659.91 leading to under banking of K31,910,956.10. It was therefore, difficult for the audit team to determine how the under banked revenue was utilised.

(c) Vouchers Not Presented For Audit: -K60,419,922.15

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

The audit exercise revealed that vouchers amounting K631,420.40 for revenue, K43,891,727.08 for CDF and K15,896,774.67 for other procurements were not presented for audit inspection. It was, therefore, difficult to ascertain the validity of such vouchers.

(d) CDF Funds Used For Unrelated Activities:- K131,731,688.51

Treasury Instructions (2004), Section 4.14(1) requires that all expenditures should be charged to an appropriate vote and that expenditure should be classified strictly in accordance with estimates. The provisions further require that funds should be spent on the intended activities otherwise Treasury approval must be sought to transfer funds from one expenditure line to another as represented by codes in the IFMIS. In addition, the Local Government Act (1998), Section 52 specifically states that the Assembly (Council), may, with the approval of the Local Government Finance Committee, make reallocations of any sum contained in such approved estimates

An inspection of financial documents such as cash books, bank statements and funds notification reports revealed that M'mbelwa District Council received a sum of **K440,000,000.00** for the eleven (11) constituencies and the total expenditure was **K308,268,311.49** leaving a balance of **K131,731,688.51**. However, the balance was not spent on CDF activities but was used for other unrelated commitments. The Council could not produce any authority to use these funds on non-CDF activities.

MACHINGA DISTRICT COUNCIL

41. An audit of Machinga District Council for the year ended 30th June, 2021 was completed in March 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations.

(a) Financial Statements And General Ledger Differences:- K575,813,045.00

General Accepted Accounting Principles (GAAP) entails that figures reported in the financial statements should equal to the underlining source documentation used to produce such figures so that the financial statements reflect a true and fair view of the transactions during the reporting period.

A comparison of financial statements figures against the figures extracted in the general ledger showed significant differences between financial statements and general ledger figures as the revenue and expenditure figures on the statement of financial performance exceeded those in the general ledger by K89,907,333.00 and K485,905,712.00 respectively. Consequently, the statement of financial performance had been overstated by K575,813,045.00 resulting in material misstatements.

(b) Payment Of Wages Below Minimum Wage: -K 8,523,331.20

Employment (Minimum Wages) (Amendment) Order (2019), Section 2 (a) stipulates that the minimum wage for workers in Malawi, with effect from 1st January, 2020 should be K1,346.16 per day and K962.00 per day before 1st January 2020.

An inspection of payrolls, payment and receipted vouchers for the period from July 2020 to September, 2020 disclosed that the Council paid its direct staff wages that were below the approved minimum wages resulting in an under payment of **K8,523,331.20**. Further enquiries revealed that the situation was attributed to lack of adequate local revenues to cater for uninterrupted monthly payments of salaries for the direct staff leading to accumulation of salary arrears. The tendency exposes the Council to the risk of penalties and litigations should the under paid members of staff decide to launch legal challenge against the Council which would result in significant pay out should they succeed.

(c) Under Collection Of Revenue:- K89,901,037.00

Treasury Instructions (2004), Number 2.6.1 (g) state that Controlling Officers should ensure that the collection of public moneys is according to approved plans and the Estimates.

During the 2020/2021 financial year, Machinga District Council budgeted to collect locally generated revenue totaling K214,425,800 from several sources including market establishments, commercial undertakings, property rates, business licenses, permits, fees and user charges.

A comparison of receipts against the revenue budget for the financial year ended 30 June 2021 disclosed that the Council collected revenue amounting to K124,524,763. This resulted in under-collection the locally generated revenue by K89,901,037. The tendency implies that local revenue budget may not have been realistic resulting into failure to achieve the targets. Furthermore, the under-collection may affect implementation of some of the planned programmes due to resource constraints thereby making it difficult for the Council to fulfil its mandate.

(d) Lack Of Title Deeds For Council's Assets: -K1,198,606,660.00

Treasury Instructions (2004), Number 5.13.1 require that all government assets are properly safeguarded against loss, theft and destruction and that the Controlling Officer adopts a set of Internal Controls to ensure that the afore mentioned risks are minimized.

However, it was noted that the Council did not have title deeds for the Council's various land and buildings valued at **K1,198,606,660.00** as at the time of completing the audit. Interviews with management and member of staff disclosed that title deeds had not yet been secured because of lack of adequate funds to make up necessary follow ups and also lack of understanding of the importance of the title deeds by most Council staff.

(e) Motor Vehicles Meant For Maintenance Lying Idle At Private Garages For A Long Time:- K66,250,000.00

Treasury Instruction (2004), Number 5.13.1 (f) require that all public assets are safeguarded against loss, destruction and unauthorized use.

An inspection of fixed asset register, and physical verification of assets disclosed that four (4) motor vehicles with registration numbers 031 MG 750, 031 MG 1349, 031 MG 1135 and MG 915 X valued at K66,250,000 which were sent for maintenance at the private garages had been lying idle at those garages for at least ten (10) years. It was established that the Council's health sector sent the vehicles to two private garages namely; Nswala Motors and Liwonde Motors in 2012 with a view to have them repaired after being inspected by the now Plant Vehicle Hire and Engineering Services (PVHES). However, as at the time of audit, the vehicles had not yet been repaired and were still at the garages in question leading to massive deterioration in their physical condition and possible parts stripping as evidenced by the

vehicle number MG 915 X which had its engine and gear box dismantled as at 23 February, 2022 which was the date of the visit . The tendency amounts to negligence on the part of management leading to loss of public assets since by looking at their current physical condition, it was very unlikely that the vehicles in question would be on the road again.

(f) Nugatory Expenditure:- K7,893,100.00

Treasury Instructions (2004), Number 2.6.1 (h) state that Controlling Officers are responsible for ensuring that all expenditure is incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste.

Contrary to the requirement, inspection of documents and physical verifications established that the Council incurred a nugatory expenditure amounting to K7,893,100.00 in respect of rehabilitation costs on a health facility which it constructed in 2015 but failed to put to use as at the time of audit. It was noted that in 2015, the Council constructed Likwakwa Health Post in Machinga Likwenu constituency to provide primary health care service to the people around it. However, as at the time of the visit to the project, in March 2022, it had not been put to use. Due to deterioration of the facility's condition, the Council contracted George Smoke to carry out maintenance works at the contract cost of **K7,893,100.00** during the 2020/2021 financial year, but the health post was still not in use. The Council was therefore, depriving the community of health services which would have been derived from the facility. In addition, further delays to put it into use makes it to deteriorate more and the Council would need more funds to rehabilitate it.

(g) Long Outstanding Payables:- K502,326,950.00

Payables represent the amounts that the entity is owing various suppliers for the goods and services they provided to the entity.

A review of financial statements and their supporting schedules disclosed outstanding payables dating back from 2008 and as at 30 June 2021 to the figure stood at K502,326,950.00. The tendency may lead to penalties and suppliers imposing huge interest charges leading to extra payment that can be avoided. Furthermore, the Council may lose trust from reliable and affordable suppliers which might lead the Council to access the same goods or services at a higher price from other suppliers hence the failure to obtain value for money.

MANGOCHI MUNICIPAL COUNCIL

42. An audit of the Mangochi Municipal Council for the year ended 30th June, 2021 was completed in May, 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Under Collection Of Revenue: -K89,541,918.00

Treasury Instructions (2004), Section 2.6.1 (g) requires that Controlling Officers should ensure that the collection of public moneys is according to approved plans and the estimates.

During the 2020/2021 financial year, the council budgeted to collect locally generated revenue totaling K291,180,000 from several sources including license and others.

A comparison of actual revenue in respect of licenses and other income collected against its budget of 2020/2021 financial year disclosed that the Council had under-collected the revenue by K89,541,918.00. The tendency implies that local revenue budget may not have been realistic resulting into failure to achieve the targets. Furthermore, the under-collection may affect implementation of some of the planned programmes due to resource constraints thereby making it difficult for the Council to fulfil its mandate.

(b) Long Outstanding Receivables: -K57,246,291.09

Local Authority Accounting and Financial Management Procedures Manual (2009), Paragraph 17.1.1 states that in all cases, Local Authorities must put in place mechanisms that would ensure that debtors are recovered within 60 days for property rates and 30 days for trade and sundry debtors and within set repayment periods.

An inspection of the receivables' listing and the receivables' ageing report revealed that the Council had long outstanding receivables' balances. As at 30th June 2021, K57,246,291.09 was outstanding for over 90 days. The tendency of failing to collect receivables on time may result in financial losses to the Council through doubtful debts and write offs.

MCHINJI DISTRICT COUNCIL

43. An audit of the Mchinji District Council for the year ended 30th June, 2021 was completed in March, 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Prior Year Adjustments Made Without Journal Entries:-
K234,215,024.00**

Local Authorities Accounting and Financial Management Procedures Manual (2020), Chapter 7.2.5 states that Journal Transfer Vouchers (JTV) shall be raised as and when account adjustments become necessary and shall not wait until the end of the financial year. Every effort shall be made to ensure that all JTVs required to be raised as a result of end of year reconciliation with Accountant General's Tabulations, are included in the June Second Account. Vouchers for

inclusion in June second account shall be forwarded to the Accountant General through the NLGFC well before the closing date fixed for the June second account which is the final adjusted account

A review of financial statements disclosed that the Council made prior year adjustments amounting to K181,145,960.00 for Capital contributed by other government entities, Current portion of long-term borrowings amounting to K501,804.00 and Employee Benefits amounting to K52,567,260.00 without proof of journal entries.

**(b) Payables Amount Adjusted Without Supporting Documents:-
K141,071,628.36**

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

An inspection of the financial statements reported K222,576,430.00 as prior payables, and K81,498,801.64 as outstanding payables as at 30th June 2021, leaving a balance of K141,071,628.36 which were movements during year but had no documentary evidence to support them.

**(c) Misallocation Of Expenditure To Other Budget Lines:-
K150,484,714.35**

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

In addition, the Local Government Act (1998) section 52 specifically states that the Assembly (Council), may, with the approval of the Local Government Finance Committee, make reallocations of any sum contained in such approved estimates.

An inspection of payment vouchers and itemized expenditure statement disclosed that K150,484,714.35 was charged to wrong sub-items without Local Government Finance Committee's Authority.

(d) Payment Of Chiefs' Honoraria Without Supporting Documentation:- K51,278,550.00

Treasury Instructions (2004), 5.9 (a) states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

Local Authorities, as agents of Central Government, manage some funds transferred to them for specifically designated functions. These include Deceased Estate Funds and Chiefs Honorarium Funds among others.

An inquiry from management of the Council revealed that Ministry of Local Government transferred funds to the Council's National Bank, account number 294907 for payment of Chiefs Honoraria who were yet to be introduced on the payroll through bank accounts. However, payments amounting to **K51,278,550.00** that were processed during the year had no supporting documents. As such, it was difficult to ascertain the validity of the paid amount and their beneficiaries.

(e) Payment Vouchers Not Presented For Audit Inspection: - K24,238,135.24

Treasury Instructions (2004), Section 5.9 (a) states that Controlling Officers shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed for easy and ready accessibility upon request by Ministry of Finance and National Audit Office staff.

An inspection of payment vouchers and itemized expenditure statement revealed that payment vouchers amounting to **K24,238,135.24** were not produced for audit. The authenticity and propriety of the payments made could therefore not be ascertained.

(f) Salary and Leave Grant Arrears For Direct Staff Not Paid:- K33,781,047.24

Local Authorities Accounting and Financial Management Procedures Manual (2020) Chapter 1.2.8 states that Local Authorities shall pay salaries and wages to their staff on established and non-established positions respectively. Pension and gratuities shall be paid in accordance with the prevailing Local Authority's Conditions of Service.

An inspection of salary records revealed that the Council had outstanding salary arrears and Leave Grants amounting to K33,781,047.24 to be paid to direct staff. Further inquiry indicated that direct staff are not being paid in time. Management failed to provide valid reasons for failing to pay their direct staff in time.

(g) Contract Payments Made Before Service Delivery: - K23,030,797.32

Local Authorities Accounting and Financial Management Procedures Manual (2020), Section 5.4.4 states that before any payment is made on works contracts the Director of Finance shall obtain a certificate from the technical officer supervising the contract that the payment is in order and is in accordance with the contract.

An inspection of payment vouchers, contract agreements, certificates, invoices revealed that the Council made double advance payments to Contractors amounting to K23,030,797.32 which was above the contract agreements before the services were delivered.

(h) Procurements Without IPDC Minutes: -K23,266,632.74

Public Procurement and Disposal of Public Assets Act (2017), Section 26 (1) and (2), states that there shall be established in all procuring and disposing entities Internal Procurement and Disposal Committees (IPDC) and the functions of the Internal Procurement and Disposal Committees shall include approving the methods of procurement and disposal to be used in each case; and ascertaining the availability of funds to pay for each procurement

An inspection of sampled payment vouchers and the IPDC minutes revealed that the Council procured goods and services for Constituency Development Fund (CDF) amounting to **K23,266,632.74** and no IPDC minutes were available approving these procurements. It was therefore, difficult to establish if these were a proper charge to public funds.

(i) Payments Made To Unregistered Suppliers: -K15,378,130.20

Public Procurement and Disposal Act (2017), Section 52 states that in order to be eligible to be awarded a procurement contract a bidder shall

- (a) be registered, depending upon the nature of the contract with the Registrar of companies, or with National Construction Industry Council of Malawi, or such other entity as may be prescribed by regulations,
- (b) be tax compliant
- (c) not be debarred from participating in procurement proceedings under this Act.

An inspection of a sample of payment vouchers, revealed that the Council procured goods and services for CDF amounting to K15,378,130.20 with suppliers who were not registered with the Registrar of Companies.

(j) Payments Without Constituency Development Fund Application Forms:- K11,864,723.38

CDF Guidelines(2014), Revised , guideline number 3 states that an application form shall be completed for each preferred project and an appraisal will be conducted by the council for each new project.

An inspection of a sample of payment vouchers revealed that the Council embarked on some of the CDF projects amounting to **K11,864,723.38** which had no Constituency Development Fund application forms. Where application forms are available, it depicts that the projects are selected for the benefit of the community, therefore, the absence of these forms becomes problematic to justify the basis for selection of the projects.

(k) Payments Without Adequate Supporting Documents: - K10,793,365.84

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

An inspection of payment vouchers revealed that payment vouchers amounting to **K10,793,365.84** were presented for audit without adequate supporting documents such as invoices, receipts and quotations among others. It was difficult to ascertain the propriety of the expenditure.

MULANJE DISTRICT COUNCIL

44. An audit inspection of the financial and other information for Mulanje District Council for the year ended 30th June, 2021 was completed in March, 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Collection Of Receivables (Rentals and Advances) Not Enforced:- K13,956,729.19

Treasury Instruction (2004) Section 5.7.2 (i) states that cash management is pursuing the debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the government are collected and banked promptly.

In addition, Local Authority Accounting and Financial Management Procedure Manual (2009) Section 2.1.5 (b) requires debts to be timely collected by the Local Authority in accordance with the terms and conditions of the service rendered.

A review of the general receipt books together with receivable schedules disclosed that the council, during the period under review, did not enforce collection of receivables valued at **K13,956,729.19** in respect of Nalipiri Guest House rentals thereby frustrating the government efforts in enhancing revenue collection.

(b) Failure To Terminate A Concession Despite Breach Of Contract By The Concessionaire

In June 2015 Mulanje District Council signed a 10-year contract (concession) agreement with Pride Investment group on renting Nalipiri guest house subject to termination on breach of contract by the concession through non-payment of rentals. The terms and conditions of the concession which among other things required the concessionaire, Pride investment under paragraph 4 to pay rentals by cheque to Mulanje district council from July 2016 at K150,000.00 per month subject to annual increment of 15%. Paragraph 12.1 of the Contract requires cancellation of the concession and repossession of the premises on breach of contract by the concessioner through default in any payment due under the concession.

A review of the general receipt books, cashbooks, bank statements and debtors' schedules pertaining to Nalipili Guest House, disclosed that since the signing of the contract, Pride Investment has never paid any rentals under the agreement. Despite this, the council did not cancel the concession between itself and Pride Investment Group as stipulated in the Concession agreement.

(c) Failure To Open And Operate A Separate Account For CDF: - K352,234,095.13

CDF guide lines (2014), Section 7 requires each Local Assembly to open a CDF account which will serve as a conduit for receiving Constituency Development Funds.

An enquiry into the system of managing the CDF disclosed that during the period under review, the council did not open or maintain a separate account for the purpose of receiving and managing the CDF, thereby making it difficult to keep track of CDF transactions.

MWANZA DISTRICT COUNCIL

45. An audit inspection of the financial and other information for Mwanza District Council for the years ended 30th June, 2021 was completed in March 2022. The audit disclosed some weaknesses in the financial controls and other related gaps as highlighted in the following observations:

(a) Unauthorized Transfers Of Deceased Estate Funds To DDF Account:- K11,400,602.00

Treasury Instructions (2004), Section 2.6.1 (i) states that the responsibilities of Controlling Officers include ensuring that all necessary precautions are taken to safeguard public resources; Local Authority Accounting and Financial Management Procedure Manual Paragraph 15.1 (d) defines Trust Funds as money that is deposited with the state pending the completion of a transaction and dispute and which may become payable to the depositor or payable to the state or any other person when desired. Treasury Instructions, Section 6.3 states that all trust moneys shall be paid into the trust account and paid by any person for the purposes for the account was established.

A review of payments made through the individual register of minor accounts disclosed that in the 2022/2021 financial year, the council transferred funds valued at K11,400,602.00 from deceased estate minor bank accounts held at FDH bank to its DDF account held at National Bank account for operations without the consent of the owners of the accounts of which at the date of the report there was no evidence of reimbursement of the funds. In this regard, the Council is defeating its stewardship responsibility.

(b) Payments Completed Outside The IFMIS:- K9,719,674.00

Treasury Instructions (2004), Section 5.10 states that all payments, receipts and other accounting transactions must be entered and processed into Integrated Financial Management Information System (IFMIS) approved by the Secretary to the treasury to enhance transparency and accountability of public funds.

However, an inspection of payment vouchers against IFMIS cashbooks revealed that the Council completed some transactions amounting to **K9,719,674.00** outside the system and hence they could not be traced in the cash books.

(c) Payment Vouchers Not Provided For Audit:- K29,297,326.05

Treasury Instruction (2004), Section 11.6.1 stipulates that in terms of the Public Audit Amendment Act, the Auditor General and his staff are at all times entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers must give them every facility for inspecting such documents.

A review of extractions from the IFMIS, expenditure cash books, cheque counter folios together with enquiries conducted during the audit disclosed that the Council did not present for audit inspection, payment vouchers amounting to **K29,297,326.05** transacted during the period under review setting a limitation to the audit assignment.

**(d) Cash Payments Of Allowances Instead Of Direct Bank Transfers:-
K105,236,731.58**

Accountant General Circular Reference number T4400 dated 3rd April, 2012, stipulates that payments should be made by cheque and deposited in respective accounts of the recipients of public funds. Further, Treasury Instruction (2004), Section 5.19.3 requires that wherever possible payments for all vouchers must be made by cheque or direct debit to a bank account. However, payments of K1,000 or less may be made in cash from the standing imprest depending on prevailing circumstances.

An inspection of payment vouchers for allowances revealed that payments amounting to **K105,236,731.58** were made for staff instead of paying direct into individual bank accounts.

(e) DDF Disallowed Expenditures: -K15,682,659.00

District Development Fund (DDF) Revised Guidelines (2020), Section 6.0 among other fiduciary and accountability arrangements state that DDF shall not finance recurrent expenditures and those projects such as painting of buildings, maintenance of vehicles, procurement of spare parts, payment of honorarium for instance do not qualify for such transactions.

An inspection of payment vouchers and their supporting documentation revealed that the Council made payments amounting to K15,682,659.00 on transactions that are not allowed under DDF.

**(f) Improper Handling Of Construction Materials For Projects: -
K5,364,883.00**

Treasury Instructions (2004), Section 5.13.1 states that adequate internal controls must exist within each Ministry and Department. Internal control is defined in the PFM Act, and is recognized as including all the controls and procedures adopted to ensure that within Government, and within each entity in Government, the following control objectives are met – (f) all assets are safeguarded against loss or destruction, and unauthorized use; (g) resources are employed and managed in an effective, economic and efficient manner.

Contrary to the Treasury Instructions above, site visits revealed that materials worth **K5,364,883.00** meant for projects were purchased all at once for all phases and delivered on sites. It was also noted that the materials were delivered on sites much earlier but they are not being put to use waiting instruction from the community committee for a direction. This shows poor planning and negligence as materials are losing their usable state.

MZUZU CITY COUNCIL

46. An audit of the accounts of Mzuzu City Council for the year ended 30th June, 2021 was completed in June 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Under Collection Of Revenue:- K227,353,321.02

Accountant General's Desk Instructions (2007), Paragraph 15.5.2 requires that revenue collections shall be allocated in the accounts strictly in accordance with the classification in the annual estimates. It further states that all departments responsible for collecting revenue shall prescribe suitable register or forms to record the amount due for collection and the amounts collected.

A review of budget against what was collected revealed that Mzuzu City Council budgeted to collect revenue amounting to K1,209,842,000.00 as at 30th June 2021 but the actual collection was K982,488,678.98. This means that there was a shortfall of **K227,353,321.02**.

(b) Salaries Paid From Operations Account Instead Of Salaries Account:- K86,775,307.99

Treasury Instructions (2004), Section 4.14.1 states that specific approval is required before any allocations can be vired or transferred between outputs. The Public Finance Management Act authorizes the Secretary to Treasury, with the approval of the Minister at the request of a Controlling Officer, to direct the virement or transfer of funds between the provisions assigned to programmes/item under a Head/Vote of expenditure, or to create a new programme/item if the amount appropriated under the Head/Vote is not exceeded. If the Controlling Officer is satisfied that the provision against a Programme/item will be inadequate, he may submit an application to the Secretary to the Treasury to vire or transfer funds between a programme/item within the same Vote.

An inspection of payment vouchers revealed that management misallocated funds amounting to **K86,775,307.99** by paying salaries out of the operations account without obtaining prior approval from the Secretary to the Treasury. At the time of audit, the misallocated funds were not yet reimbursed to the operations account.

(c) Operating Without Urban Development Plan:- K86,482,574.12

Local Government Act (1998), Section 21 (1) (2) states that an Assembly shall have a duty to draw up plans for development such as the social, economic and environmental development of the area, plans for such periods and in such form as the Minister may prescribe.

Further, development plans shall be prepared in conjunction and consultation with other agencies having a public responsibility for or charged with producing plans for development whether generally or specifically and affecting the whole or substantial part of the Assembly.

A review of financial records disclosed that some Infrastructure Development Fund activities amounting to K86,482,574.12 were implemented and paid for without following the Urban Development Plan.

NENO DISTRICT COUNCIL

47. An audit of the Accounts of Neno District Council for the year ended 30th June, 2021 was completed in March, 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Misallocation Of Voted Funds: -K4,047,189.50

Treasury Instruction (2004), Section 14.14.1 states that specific approval is required before any allocations can be vired or transferred between outputs. The PFM Act authorizes the Secretary to Treasury, with the approval of the Minister at the request of a Controlling Officer, to direct the virement or transfer of funds between the provisions assigned to programmes/item under a Head/Vote of expenditure, or to create a new programme/item if the amount appropriated under the Head/Vote is not exceeded. If the Controlling Officer is satisfied that the provision against a Programme/item will be inadequate, he may submit an application to the Secretary to the Treasury to vire or transfer funds between a programme/item within the same Vote. The application should be in writing and should be signed personally by the Controlling Officer.

An inspection of payment vouchers disclosed that funds amounting to K4,047,189.50 that were meant for other activities were used on unrelated activities defeating Government objectives on budget lines.

(b) Misstatement Of The Cash Flow Amounts

Public Finance Management Act (2003), Section 10(1)(c) 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

However, a review of financial statements revealed that the 2021 financial year statement of cashflows did not portray a true picture as the net increase of cash and cash equivalents had been indicated as **K121,990,787** instead of **K50,256,262** which is the sum of cash flows from operating, investing and financing activities. The K121,990,787

was just a balancing figure for the closing cash and cash equivalents to be reported on the statement of financial position. This resulted into a material and pervasive misstatement.

NKHATA BAY DISTRICT COUNCIL

48. An audit of Nkhata Bay District Council for the year ended 30th June, 2021 was completed in March, 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Over-expenditure on Other Recurrent Transactions (ORT): - K64,749,248.92

Treasury Instructions (2004), Section 2.6.1(f) states that responsibilities of Controlling Officers include ensuring that 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 requirements, an analysis of the budget and expenditure for the year ended 30th June, 2021 revealed that the Education, Health, Fisheries and Sports sectors spent more than their budgeted funds by **K64,749,248.92**.

(b) Poorly Constructed DDF Projects Certified and Fully Paid For: - K13,501,799.70

Public Finance Management Act (2003), Section 10(1) (h) stipulates that each Controlling Officer is responsible for ensuring that, in relation to his Ministry, Department or agency, all expenditure is uncured with due regard to economy, efficiency and effectiveness and the avoidance of waste.

Physical inspection of DDF projects revealed poor workmanship on some projects amounting to **K13,501,799.70**. Surprisingly, these structures were certified and fully paid for. The payments were made to Gimm water experts & drilling Payment for drilling Borehole at Mzizimanga school at K3,290,000.00 and two payments of K5,105,899.85 made to Chudako building contractor for construction of Mpamba Market amounting to K10,211,799.70.

(c) Unclaimed Minor's Accounts:- K10,139,213.20

Public Finance Management Act (2003), Section 49 (1) states that any trust money that is unclaimed for a period of three years after having become repayable to the depositor or payable to any other person entitled thereto, and after due inquiry and notice by publication, shall, together with interest (if any) added in accordance with section 43 (3) be deemed to be public money and shall, subject to section 43 (4) be transferred to the Consolidated Fund.

An inspection of the Minors' Accounts and the Minors' Ledger revealed that Minors' accounts worth K10,139,213.20 were not transferred to the consolidated fund despite being unclaimed for a period of over 4 years.

(d) Delays In Remitting Pay As You Earn (PAYE) To Malawi Revenue Authority: K59,638,177.00

Taxation Act (Chapter 41:01) requires, among other things, that withholding Tax be deducted at source when effecting payments to suppliers of goods and services who have no proof of a valid Withholding Tax Exemption Certificate. Sections 102(A) and 146 (6) of the Act require that the amounts of withholding tax deducted should be remitted to the Malawi Revenue Authority within 14 days from the end of the month in which such deduction was made. In addition to that the Taxation Act requires that Pay As You Earn (PAYE) should be deducted at the time the emoluments are paid (weekly, fortnightly, or monthly) and remitted to MRA within 14 days of the end of the month in which the tax was deducted.

A review of the financial statements revealed that the Council failed to remit PAYE to MRA amounting to **K59,638,177.00** as at 30th June 2021 contrary to the above quoted regulations.

NSANJE DISTRICT COUNCIL

49. An audit of Nsanje District Council for the year ended 30th June, 2021 was completed in March 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Over Expenditure On Budget Lines:- K27,048,519.88

Treasury Instructions (2004), Section 4.13.2.2 states that unless otherwise indicated in the notes in the approved estimates, every Controlling Officer shall ensure that expenditure is in accordance with budgetary provisions, and that there are no over expenditures.

Contrary to the Treasury Instructions above, an examination of payment vouchers revealed that the Council overspent on a number of budget lines amounting to **K27,048,519.88**.

(b) Completion Certificate Issued For Incomplete Project: - K16,904,200.00

CDF Revised Guidelines (2014), Section 16 (4) states that final payment for any contract shall only be done after issue of a certificate of completion. The contract shall determine who will sign the certificate of completion depending on the complexity of the project.

An inspection of payment vouchers, status report disclosed that full payment amounting to **K16,904,200.00** was made for construction of Nyamijeti Primary school block and completion certificate was issued. However, a physical verification of the school block revealed that the block was not painted; and doors and windows were not fixed.

NTCHEU DISTRICT COUNCIL

50. An audit inspection of the financial and other information for Ntcheu District Council for the year ended 30th June 2021 was completed in February,2022. The audit disclosed some weaknesses in the financial controls and other related gaps as highlighted in the following observations:

(a) Failure By ADC/UDC To Compile Annual Reports On CDF Projects Implementation

Constituency Development Fund Guidelines (Revised 2014), Section 9 among other things states that, the secretary of the Area Development Committee (ADC) or Urban Development Committee (UDC) shall compile annual reports on the implementation of the Constituency Development Fund (CDF) and shall submit them to the Council.

Contrary to the requirements mentioned above, annual reports on the implementation of the CDF projects were not made available to the audit team.

(b) Over Expenditure On CDF Projects:- K36,119,076.47

Constituency Development Funds guidelines of 2014, states that with the direction of the Accountant General’s office, each Local Government shall open and maintain a Constituency Development Fund Account which shall serve as the conduit for receiving the Constituency Development Fund. These funds are allocated to each Constituency equally for implementation of projects the constituency.

A review of cashbooks revealed that there was over expenditure on CDF projects amounting to K36,119,076.47. The Table 5 below has the details.

Table 5: Spending More Than Allocated Funds

Constituency	Funds received (K)	Funds used (K)	Variance (K)	Utilisation rate (%)
Bwanje South	40,000,000.00	50,087,879.00	10,087,879.00	125%
Ntcheu North	40,000,000.00	43,015,398.47	3,015,398.47	107%
Ntcheu West	40,000,000.00	63,015,799.00	23,015,799.00	157%

It was difficult to appreciate where the additional resources were acquired from so that CDF overspends by K36,119,076.47

NTCHISI DISTRICT COUNCIL

51. An audit inspection of Ntchisi District Council for the year ended 30th June 2021 was completed in February, 2022. The audit disclosed some weaknesses in the financial controls and other related gaps as highlighted in the following observations;

(a) Payment for allowances and fuel using cash instead of paying through bank accounts: -K85,136,440.00

Local Authorities Accounting and Financial Management Procedures Manual (2020), Chapter 2.1.2(d) stipulates that all payments of the Local Authority should be made by Cheque.

An inspection of payment vouchers revealed that the Council paid allowances and fuel amounting to K85,136,440.00 using cash instead of bank accounts.

(b) Unsigned Contracts: -K25,735,512.00

CDF Guidelines (2014), number 16 on Contract Administration states that all contractors shall sign a contract with the Council which will describe the work to be done, standards (designs, drawings and similar specifications) and stages at which payment shall be paid and where applicable an agreed 10% retention fee plan.

However, an inspection of contract documents revealed that contracts amounting to **K25,735,512.00** were not signed for thereby making the transactions illegal and unenforceable in the event of non-compliance from the obligations of either party to the contract.

PHALOMBE DISTRICT COUNCIL

52. An audit inspection of Phalombe District Council for the year ended 30th June 2021 was completed in March 2022. The audit disclosed some weaknesses in the financial controls and other related gaps as highlighted in the following observations;

(a) Under Collection Of Locally Generated Revenue:- K37,656,340.00

Treasury instructions (2004), Section 5.6.2 states that Controlling Officer of a Ministry or Department must manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for identification, collection, safeguarding, recording and reconciliation of information in respect of revenue.

The audit noted that Phalombe District Council budgeted to collect locally generated revenue amounting to K108,875,000.00 but it collected K71,218,660.00 leading to under collection of **K37,656,340.00**.

RUMPHI DISTRICT COUNCIL

53. An audit of the financial and other information for Rumph District Council for the year ended 30th June 2021 was completed in March, 2022. The audit disclosed some weaknesses in the financial controls and other related gaps as highlighted in the following observations;

(a) Under-Collection Of Budgeted Revenue: -K21,506,776.10

Local Government Act (1998), Section 44(1) provides that the sources of revenue for the Council to finance its operations shall be sources of those stated in the Third Schedule. Locally generated revenue which shall include but shall not be limited to (1) Property rates; (2) Ground rent; (3) Fees and licenses; (4) Commercial undertakings; and (5) Service charges.

An inspection of the statement of comparison of budget & actual for the year ended 30 June 2021 revealed that the council planned to collect revenue totaling K94,941,631 from local revenue. However, the council collected revenue amounting to K73,434,854.85 showing an under collection of **K21,506,776.10**.

(b) Long Outstanding Payables:- K33,986,686.79

Treasury Instructions (2004), paragraph 5.6.2 states that the Controlling Officer of a Ministry or Department must manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for identification, collection, safeguarding, recording and reconciliation of information in respect of revenue.

An inspection of liabilities revealed that the Council has long outstanding payables amounting to K33,986,686.79 which have not been paid since 2011. No explanations were given as to why management has not cleared these long outstanding payables.

(c) Deceased Funds Not Recorded In The Paper Money Register: - K29,937,401.22

Local Authority and Finance Management Procedure Manual (2009), Paragraph 15.3.1, stipulates that all money meant for deceased estates from the Administrator General, Accountant General and other organizations shall be entered in the Paper Money Register (PMR) maintained by the Administration Department.

An inspection of Paper Money Register revealed that receipts for deceased estate amounting to K29,937,401.22 was received but were not recorded in the said register.

(d) Expenditure On Substandard Work:- K10,508,482.07

The Local Authority Accounting and Financial Management Regularity Framework (2009), Chapter 1.3.4 (h) states that the District Commissioner shall ensure that all expenditures is incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste.

During projects verification exercise, the audit team noted poor workmanship in some of the projects worth K10,508,482.07. As at the time of the visit, some school blocks which were newly constructed had developed cracks on the floor and some boreholes were not functioning. Details are in the table 6 below.

Table 6: Expenditure On Substandard work

Project Name	Funding	Amount	Status
Lupalamizi FP School Block	CDF	4,128,984.07	Damaged Floor after 3 months since completion
Kasere Primary School Borehole	Covid 19-Borehole Funds	3,189,749.00	Not functioning well after 4 months of installation
Luwuchi CDSS borehole	Covid 19-Borehole Funds	3,189,749.00	Not functioning well after 4 months of installation
Total		10,508,482.07	

(e) Delays In Implementing And Completion Of Projects: - K78,715,815.07

Public Finance Management Act 2003, Section 10 subsection I (h) and (I) 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; and all necessary precautions are taken to safeguard public resources.

Physical verification of construction works for various projects revealed slow progress and no implementation of some projects. Bolero Market Shelter Project was started in 2017-18 financial year

and had not been completed at the time of the audit. In December 2020 the Council purchased pipes for Bale Water Supply Scheme which have not been installed up to date. In May 2021, 29 schools received Covid 19 funds for borehole and shallow wells installation but only 5 boreholes and 2 gravitational water pipes were installed. Such delayed projects are worth K78,715,815.07.

SALIMA DISTRICT COUNCIL

54. An audit inspection of the financial and other information for Salima District Council for the year ended 30th June 2021, was completed in February 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Constituency Development Fund Projects Appraisals Not Produced For Review: - K52,981,863.86

CDF Guidelines(Revised 2014), stipulates that the Council shall appraise all new projects submitted by the Member of Parliament. The District Commissioner/Chief Executive shall assign the Director of Public Works and other relevant sector staff to ensure that all new infrastructural projects are appraised so that they adhere to acceptable government and sectoral standards.

Contrary to the requirements above, the Council did not provide project appraisal reports to the audit team for review in respect to CDF projects amounting to **K52,981,862.86**.

THYOLO DISTRICT COUNCIL

55. An audit inspection of the financial and other information for Thyolo District Council for the year ended 30th June 2021, was completed in March 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Long Outstanding Current Payables:- K55,857,145.85

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

An inspection of payables in the financial statements and related schedules revealed that payables such as gratuity amounting to **K8,080,889.60** and Pay As You Earn amounting to **K47,776,256.25** have been outstanding for a long-time raising fear of litigation and finance costs to the Council.

(d) Failure To Remit (PAYE) Tax Deductions To MRA: - K61,083,894.45

Taxation Act (2006), Section 102 (1) requires that when making payment of, or on account of, any emolument at a rate exceeding an amount established by the Minister of Finance per annum received or accrued in respect of services rendered, whether payable under any contract of employment or service or not, whether paid or payable weekly or monthly or at other intervals, and including any amounts assessable under sections 16, 17 and 18, income tax shall, subject and in accordance with any regulations made by the Minister under section 146, be deductible by the person making the payment and be remitted to Malawi Revenue Authority. The Fourteenth (14th) Schedule of the Act further requires the deducted PAYE to be remitted to MRA within Fourteen (14) days of the end of the month in which it was deducted.

Contrary to the taxation requirements, the Council did not remit to the Malawi Revenue Authority the deducted income tax amounting to **K61,083,894.45** under rule 3 within fourteen days of the end of the month in which it was deducted. The period is from the 2010/2011 to 2020/2021 Financial Year.

ZOMBA CITY COUNCIL

56. An audit inspection of the financial and other information for Zomba City Council for the year ended 30th June 2021, was completed in June, 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Failure To Remit Pay As You Earn (PAYE) To MRA: -K 82,529,548.64

Taxation Act of (2006), Section 102 (1) requires that when making payment of, or on account of, any emolument at a rate exceeding an amount established by the Minister of Finance per annum received or accrued in respect of services rendered, whether payable under any contract of employment or service or not, whether paid or payable weekly or monthly or at other intervals, and including any amounts assessable under Sections 16, 17 and 18, income tax shall, subject and in accordance with any regulations made by the Minister under section 146, be deductible by the person making the payment and be remitted to Malawi Revenue Authority. The Fourteenth (14th) Schedule of the Act further requires the deducted PAYE to be remitted to MRA within Fourteen (14) days of the end of the month in which it was deducted.

An inspection of payroll and pay sheets revealed that the Council did not remit to MRA the deducted PAYE amounting to K82,529,548.64 under rule 3 within fourteen days of the end of the month in which it was deducted.

(b) Failure To Collect City Rates Receivables:- K1,418,619,116.11

Local Authority Accounting and Financial Management Procedures Manual(2009), Section 2.1.5(b) states that all such debts shall be timely collected by the Local Authority in accordance with the terms and conditions of the service rendered.

A review of property owner's database revealed that Zomba City Council failed to collect city rates from property owners up to the year-end under review accumulated to K1,418,619,116.11.

(c) Lack Of Insurance Cover For ICT Assets

Public Service ICT Standards (2013), Section 3.1.2.3 dictates that "Organization responsible for ICT implementation in Malawi will liaise with concerned office to ensure adequate insurance coverage for ICT equipment/facility. Likewise, organization responsible for ICT implementation in Malawi shall ensure that adequate facilities which are critical to the physical protection of the device or its environment are installed to prevent or minimize the effect of fire, flooding, and similar physical threat.

An enquiry with management revealed that Zomba City Council does not have an insurance cover for its ICT assets (hardware and software) for the period under review contrary to the policy requirement.

(d) Lack of IT Risk Assessments

Public Service ICT Standards (2013), Section 3.4.2.1 demands that an annual risk assessment is performed to identify information security risks with target activities and maintain continuity plan activities.

A review of the IT General Controls noted that Zomba City Council did not perform any IT risk assessments for the identification of key IT risks facing the organization during the period under review. Additionally, we noted that Zomba City Council have no antivirus software on its computers.

(g) Lack Of Segregation Of Duties On Journals' Processing In IFMIS

Treasury Instructions (2004), Section 5.23.2 emphasizes of segregation of duties which is one of the internal controls that has to be adhered to by management. Segregation of duties requires conflicting duties and areas of responsibilities to be segregated in order to reduce the risk of an asset's unauthorized or unintentional modification or misuse.

The audit noted that access to journals for surcharge had been mapped to an officer in Ledger's office to initiate the journal process up to completion without another person's approval.

ZOMBA DISTRICT COUNCIL

57. An audit inspection of the financial and other information for Zomba District Council for the year ended 30th June 2021, was completed in March 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Understatement Of Assets:- K228,971,623.00

International Public Sector Accounting Standard (IPSAS) Number 1 specifies minimum line items to be presented on the face of the statement of financial position, statement of financial performance and statement of changes in net assets/equity. It also specifies minimum disclosure requirements for the notes.

A comparison of notes and figures on the face of financial statement shows that there was a difference on Work in progress figures between Note Number 3 of K406,358,848.00 and K177,387,225.00 on face resulting to an understatement of assets by K228,971,623.00.

(b) Understatement Of Expenses (Depreciation):- K657,859,980.00

IPSAS1 specifies that all expenses which meet the definition of an expense should be included in the financial statements.

TA review of the financial statements for the year under review revealed that depreciation amounting to K657,859,980.00 was not part of the statement of financial performance and this resulted in understatement of expenses and a misstatement of the reported surplus by the same amount.

(c) Understatement Of Expenses (Depreciation):- K33,251,078.00

IPSAS 3 requires that assets are depreciated over their useful lives as outlined in the entity's accounting policies. Councils follow accounting policies outlined in the Local Government Act Manual.

An inspection of useful lives of some assets as provided by Local Government Act and those used by Zomba District Council revealed that depreciation was understated by K33,251,078.00 due to wrong use of useful lives of some assets. Eventually, this resulted into understatement of expenses and a misstatement of the reported surplus by the same amount

PART IV

CONCLUSIONS AND RECOMMENDATION

CONCLUSION

58. There are a number of challenges in the Local Councils that will need urgent attention if the decentralization process is to continue achieving its intended purpose. The major challenge is laxity of staff and Management. Monthly monitoring of staff by Management is therefore a must.

The following observations were noted during the audit: -

(i) Expenditure Management

- Expenditures made without following procedures (Irregular expenditure)
- Misallocation of Funds (funds spent on different functions other than that which parliament approved)
- Contract payments made before service delivery
- Payments not related to CDF and DDF
- Unauthorised transfers of Deceased Estate Funds to DDF Account
- Salaries paid from operations account instead of salaries account
- Payment of wages below minimum wage
- Abuse of CoVID 19 Funds
- Cash payment to staff
- Over expenditure
- Payments in the bank statement but not in the cashbook or cheque dispatch register
- Nugatory expenditure
- Payment for deceased estate, minors made without raising payment vouchers
- Failure to pay salary and leave grants arrears for direct staff
- Failure to remit PAYE taxes to MRA
- Failure to process transactions through IFMIS
- Failure to administer deceased estates
- Embezzlement of deceased estate funds
- Failure to recover loans and advances

(j) Financial Statement related issues

- Wrong Amount of Cash and Cash Equivalent shown in the financial statements
- Failure to Revalue Council Assets

- Differences Between the Ledger and Bank Account Balances
- Failure to Safeguard Council Property
- Ownership Documents for Property Not Produced
- Lack of title deeds for Council's assets
- Selective valuation of same class of assets
- Adjusted figures for donor receipts not supported with documentary evidence
- Prior year adjustments made without journal entries
- Financial Statements and General Ledger differences
- Understatement of Assets
- Understatement of expenses(depreciation)
- Misstatement of cash flow amounts
- Failure to revalued assets
- Failure to Safeguard Councils' Property
- Motor Vehicles meant for maintenance lying idle at private garages for a long time

(k) Procurement

- Suspicious procurement of an automated car park system
- Procurements done without approval of IPDC
- Mis-procurement of stores
- Payment made to unregistered suppliers

(l) Project Management

- Failure by ADC/UDC to compile annual reports on implementation of CDF projects
- Operating without Urban Development Plan
- CDF materials purchased but not delivered
- Payments without CDF application forms
- Failure to monitor implementation of CDF & DDF projects
- Failure to sign Contracts
- Failure to compile annual reports on CDF projects by members of parliament
- Failure to open and operate a separate account for CDF.
- Under Utilisation of Constituency Development Fund
- Improper handling of construction materials for projects
- Improper certification of CDF projects
- Completion Certificates issued for incomplete projects
- Full contract amount paid for partly completed projects

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 - Improper handling of construction materials for projects
 - Improper certification of CDF projects
 - Completion Certificates issued for incomplete projects
 - Full contract amount paid for partly completed projects
 - Finished Projects Not Being Used (White Elephant)
 - Unrealistic Budget Estimation of Projects
 - Delays in implementation and completion of projects
 - Expenditure on substandard work
- (m) Receivables Management**
- Failure to collect revenue from debtors
 - Failure to effect deductions on advances
- (n) Record Management**
- Deceased Estate Funds not recorded in the Paper Money Register
 - General Receipts Book Not Presented for Audit
 - Deposit slips without revenue collectors' summary sheets
 - General receipt books not presented for audit
 - Failure to present project files and Annual Investments Plans (AIPs)
 - Payment vouchers without supporting documents
 - Fuel not accounted for through fuel ledgers and log books
 - Failure to provide the list of all registered properties, subject to property rates
 - Payment Vouchers not presented for Audit
 - Constituency Development Fund project appraisals not produced for audit review
- (o) Revenue Management**
- Under Collection of Revenue
 - Revenue not accounted for
 - Underbanked revenue

(p) Payables Management

- Long outstanding payables
- Failure to provide supporting documentation for accounts payables
- Payables amount adjusted without supporting documents

It is my view that Government should immediately conduct a review initiative to establish the cause of these problems.

RECOMMENDATION

59. 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; most of them submitted their responses within the required period required under Section 14 of the Public Audit Act.

Note that the recommendations in this report go beyond those already made in the individual Management Letters. It is my plea therefore that each Controlling Officer, the NLGFC as well as Ministry of Local Government should critically look at these recommendations and act accordingly.

These recommendations include: -

- (1) Councils should ensure that adequate and effective controls are in place to safeguard against loss of revenue, assets and other public funds;
- (2) All revenues not banked should be banked within seven days of receiving this report;
- (3) All funds which have not been accounted for should be accounted for within a month of receiving this report and the responsible officers dealt with in accordance with the existing regulations;
- (4) Investigation should be instituted for all payments which were made for non-existent and incomplete construction projects;
- (5) Councils that failed to process some transactions through IFMIS should be probed as to why this was not done and appropriate action should be taken;
- (6) Councils that failed to remit PAYE to MRA need to explain and justify this anomaly; and remit the PAYE within one month after receiving this report;
- (7) All deceased estate funds due for payment must be paid within one month after receiving this report;
- (8) All procurement flaws should be investigated;

- (9) Controlling Officers must ensure strict adherence to procurement laws and regulations;
- (10) All project management flaws especially on CDF projects must be investigated;
- (11) The Controlling Officers must ensure strict adherence to CDF and other funds guidelines and need to demand monthly reports on the same, taking disciplinary action against any officer in violation and reporting to law enforcement agencies;
- (12) All irregular expenditures should be probed further and responsible officers dealt with in accordance with relevant laws and regulations;
- (13) The Controlling Officers must monitor all their monthly expenditures and ensure that all payment vouchers are fully supported and that they are intact;
- (14) The problem of poor record keeping has persisted for long. Any officer responsible for missing vouchers, failure to attach necessary supporting documents should face disciplinary action;
- (15) The Controlling Officers must, within one month of receiving this report, come up with a plan on how outstanding loans and advances will be recovered;
- (16) The Controlling Officers must, within a month of receiving this report, come up with a plan on how they will collect outstanding debts from their clients.
- (17) The Councils should speed up the process of getting title deeds for all their assets and include them in the books and financial statements;
- (18) The Councils need to strictly adhere to the Local Authority Accounting and Finance Management Procedures Manual on all aspects of record keeping and financial reporting;
- (19) The NLGFC should be strict in ensuring that the Directors of Finance and accounting staff are maintaining proper books of account and adhering to the IPSAS accrual stage three (3) as required by each Council; and
- (20) Disciplinary measures should be effected on officers who deliberately violate accounting reporting procedures.

September, 2022
LILONGWE

GLOSSARY

Unqualified Opinion

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

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.

Qualified Opinion

Qualified Opinion is expressed when the auditor having obtained sufficient appropriate audit evidence concludes that there is material misstatement 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 of 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.

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 of opinion may also be issued considering the potential cumulative effect of uncertainties even when all audit evidence is received.

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.

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.

- 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.
- 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.

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.

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.

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; and
- (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.