REPORT OF THE AUDITOR GENERAL ON THE

SELECTED ACCOUNTS OF STATUTORY BODIES

OF THE

REPUBLIC OF MALAWI

For The Year Ended 30th June, 2019

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25th June, 2021

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

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

Dear Madam

Pursuant to the provision of Section184 (2) of the Constitution of the Republic of Malawi (1994) and the Public Audit Act Cap 37:01, I have the honour to submit my report on the results of the audit of the (Selected) Accounts of the Statutory Bodies of the Government of the Republic of Malawi for the year ended 30th June, 2019 for tabling in the National Assembly.

Yours faithfully,

THOMAS K. B. MAKIWA
Acting Auditor General

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ACRONYMS

ADMARC	Agricultural Development and Marketing Corporation
BWB	Blantyre Water Board
CMST	Central Medical Stores Trust
RFA	Roads Fund Administration
MACRA	Malawi Communications Regulatory Authority
MERA	Malawi Energy Regulatory Authority
MRA	Malawi Revenue Authority
NFRA	National Food Reserve Agency
ESCOM	Electricity Supply Commission of Malawi
PPPC	Public Private Partnership Commission
RA	Roads Authority
TCC	Tobacco Control Commission
TEVETA	Technical Entrepreneurial and Vocational Education and Training Authority
UNIMA	University of Malawi

NATIONAL AUDIT OFFICE

VISION

To be an autonomous Supreme Audit Institution that effectively contributes to public accountability, transparency and good governance.

MISSION

To promote accountability, transparent administration and good governance in the public sector through the provision of quality audit services, which assure the Nation that public resources are economically, efficiently and effectively applied.

CORE VALUES

- ✔ Professionalism
- ✔ Integrity
- ✔ Objectivity
- ✔ Independence
- ✔ Confidentiality
- ✔ Continuous Professional Development
- ✔ Open Communication

PREFACE

The Auditor General has over the years released annual reports to Parliament pursuant to provision of Section184 (2) of the Constitution of the Republic of Malawi (1994) and the Public Audit Act Cap 37:01 through the Minister of Finance to Parliament.

The reports of Ministries, Departments, Agencies (MDAs) have also for the past been including some reports of Treasury Funds, Foreign Missions and some special instances of the Statutory Bodies. In a bid to enhance more accountability of all public funds and resources, it is now necessary to issue a separate report specifically for the Statutory Bodies.

The first edition of my report on this regard was issued for the transactions covering the year ended 30th June 2018 and it included eight (8) Statutory Bodies. This second edition covers fifteen (15) Statutory Bodies for the year ended 30th June 2019, translating to an 87.5% incremental audit coverage. These Statutory Bodies are selected based on the exposure to risks, the increased demand for transparency by the general public, related impact they influence on the country's development path and other factors.

The separate reporting of these Statutory Bodies will aid in strengthening the effectiveness of the financial governance and operational mandates. This report has deliberately included statements of comprehensive income and financial position of these Statutory Bodies for better understanding of the financial performance of the entities. The statement of financial position helps in appreciating the levels of financing and gearing which are crucial for the Statutory Bodies to remain sustainable in delivering their mandates. For every Statutory Body, the report has considered and incorporated some of the following subject matters: -

- Overview of the statutory entity and its main activities;
- Financial performance overview looking at profitability, liquidity and other ratios;
- Highlights through the presentation of the audited financial statements and the level of long term liabilities;
- Highlights of tax issues through the audit queries that have been reported;
- Analysis of other ratios that are crucial in assessing the sustainability or going concern of the entities; and
- Highlights of risk levels assessed and recommended for action by the Auditor General for enhanced monitoring of the operations.

KEY POLICY RECOMMENDATIONS

My audit has established that the following areas need improvement in form of policy and operational arrangements moving forward: -

(1) Statutory Bodies that delay in submitting audited financial statements as required by the Public Finance Management Act (2003) and Public Audit Act (2003) to the shareholder should face disciplinary actions;

(2) Statutory Bodies that have both the corporate and delegated functions of Government e.g. MACRA, MERA, RA, Roads Fund, MRA should be preparing two sets of accounts, one for the corporate affairs and the other for the technical or delegated business unit;

(3) Information on bail out financing instruments, objectives and information to the Statutory Bodies should be provided as a requirement to the Auditor General for continuous monitoring and follow-up;

(4) Issues that were recommended in my first edition to a larger extent, have not been actioned or/and addressed;

(5) Loan guaranteeing and servicing details that are done through Treasury should be separately reported to the concerned Statutory Body and disclosed in the final accounts as other financial information; and

(6) The Key Performance Indicators between the Board and Government as well as those of the Board and the Controlling Officers (Chief Executive Officers) should be subjected to rigorous performance appraisals

EXECUTIVE SUMMARY

In accordance with Section 6 of Public Audit Act of 2003, I have reviewed, examined and enquired into and audited the accounts of Statutory Bodies.

The audits have been limited to the accounts for the year ended 30th June 2019, but have extended into the reviews of the preceding years wherever it has been considered necessary due to the level of significance and materiality.

This report earmarked fifteen (15) Statutory Bodies an increase from that of the year ended 30th June 2018 which reported on eight (8) Statutory Bodies.

In the financial year ended 30th June, 2019, the fifteen Statutory Bodies in this report had a combined total revenue of approximately K530.3 billion against MK419 Billion comparatively registered in the year ended 30th June, 2018, representing a 27% revenue base increase. Similarly, the summation of operating expenses is K393.8 billion against K303.4 billion spent in the year ended 30th June, 2018 also representing an increase of 30%. With regard to profitability, there was a combined sum of approximately K15.4 billion total profit has been recorded against K32.5 billion achieved in 2018.

Out of the reported fifteen (15), five (5) Statutory Bodies namely, Tobacco Commission (then Tobacco Control Commission), University of Malawi, Electricity Supply Commission of Malawi, Blantyre Water Board and Central Medical Stores Trust registered losses.

From a financial reporting compliance perspective, during the year under review, Statutory Bodies produced their audited financial statements in time except for Central Medical Stores Trust, Electricity Generation Company of Malawi, Electricity Supply Commission of Malawi, Malawi Energy Regulatory Authority, Blantyre Water Board, and Public Private Partnership Commission. Although the audits were outsourced using Section (10) of the Public Audit Act (2003), my review agrees with the audit opinions basis and confirmed that indeed they were right application based on the reporting standards.

In this report, I have also highlighted the accounts that have been qualified alongside the justification and probably the recommendations.

It is important to note that although I have outsourced audit of 85% of the Statutory Bodies, it is my considered decision that going forward, my office will gradually be decreasing the level of outsourcing. Where outsourcing is done, as a matter of enhancing quality control, I have embarked on a mid-term performance reviews' programme of these Statutory Bodies with the intention of improving compliance with Government rules and regulations. It is also very clear from the report that some Statutory Bodies should ensure that capacity of finance officers is given a priority as a drive to sustain accountancy professional development. The objective of these capacity programme trainings is to enhance application of provisions of Public Audit Act of 2003, Public Finance Management Act of 2003, Public Procurement and Disposal of Public Assets Act of 2017, and other related Acts and regulations on public financial management.

INTRODUCTION

AUDIT OF PUBLIC ACCOUNTS OF STATUTORY BODIES

1. I am required under Section 184 (1) of the Constitution of the Republic of Malawi (1994) to audit and report on the accounts of Statutory Bodies as may be prescribed by an Act of Parliament, in so far as they are compatible with the principal duties of my office.

2. Section 184 (2) requires me to submit reports at least once a year to the National Assembly through the Minister responsible for Finance. Section 15 of the Public Audit Act of 2003 requires me to report to the President and the Speaker of the National Assembly. Although the provision of Section 15 of the Public Audit Act is deemed inconsistent with the Constitution in a way, it gives me an opportunity to submit a copy of my report direct to the Speaker of National Assembly whilst respecting the Constitution as a supreme law by reporting through the Minister Responsible for Finance.

3. Recent developments are that a Constitutional Amendment Bill on Section 184 of the Constitution and Public Audit Bill were sent to National Assembly for possible amendment of the two inconsistencies. During the Parliament sitting of November 2016, these were tabled and deliberated on. However, the plenary noted some gaps, referred to three committees for further scrutiny, and made some proposals on the amendments. The committees are: Legal and Constitutional Affairs, Public Accounts, and Budget and Finance Committees. The objective was to harmonise and comply with INTOSAI declarations of Lima, October 1977, Mexico, November 2007 and also UN resolutions 66/209 and 66/288 of 22nd December, 2011 and 20th November, 2014 respectively which call for independence of SAIs as a way of fostering sound public financial management and administration. The bills were re-tabled in February, 2018 Parliamentary Session, only Public Audit Amendment bill was passed leaving Constitutional Amendment Bill Section 184 at its second reading.

4. The Public Audit Act provides, inter alia, for the administration, control and audit of the public finances of Malawi. In discharging these duties, I am required in terms of Section 6 (4) (d) to determine whether the procedures and systems of internal control of Ministry, agency and public authority or body do ensure that; -

   (a) Revenue is properly assessed and collected;

   (b) Expenditure is validly and correctly authorised;

   (c) Revenue, expenses, assets and liabilities are properly recorded and accounted for;

(d) Resources are employed and managed in an economic, effective and efficient manner;

(e) There has been no waste or extravagance;

(f) Relevant government policies and legislation are being complied with;

(g) The accounts and records have been properly kept.

5. Section 6 (2) of the Act requires me to undertake an audit programme to review and approve the audited accounts of Statutory Bodies and conduct audits of any Statutory body that has not had its financial statements audited by a firm of auditors, this includes where I do not approve the audited financial statements.

6. Section 6 (3) of the Act requires me 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 money or public resources which in my opinion justifies further investigations.

7. In fulfilling my duties, powers and responsibilities lawfully conferred on me under Section 7 (1) of Public Audit Act, I am also 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 on any documents, books and accounts subject to audit and examination by my office to deliver all or any of them at a time and place and to such a 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.

SUBMISSION OF FINANCIAL STATEMENTS

Section 83 (1) of the Public Finance Management Act of 2003 requires a Controlling Officer of Statutory Body to submit financial statements for audit to the Auditor General within a period of four (4) months after the closure of each financial year. Additionally, Section 15(1) of the Public Audit Act of 2003 requires that all public entities should be audited before six (6) months after the end of the financial year. The form and content of the financial statements are as follows: -

(a) A Consolidated Operating Statement showing revenue and expenditure and the surplus or deficit for the reporting period;

(b) A statement of Financial Position showing the assets, liabilities and net financial position as at statement of financial position's date of the reporting period;

(c) A Statement of Cash Flows showing the receipts and cash payments during the reporting period, and cash balance as at statement of financial position's date of the reporting period;

(d) A Statement of Cash Balance showing breakdown of the balance held by type of holding;

(e) A Statement of Statutory Expenditure showing details of domestic debt serving, external debt servicing, statutory remuneration and other material items of expenditure;

(f) A Statement of Investment showing the nature or type of investment and current and non-current investments;

(g) A Statement of Borrowings showing total debt and the breakdown of current and non-current debts; and for each showing the opening and closing balances for the reporting period and the nature of the movement during the period, the impact of exchange rate movements, average interest rate, and loan balances available for breakdown;

(h) A Statement of Ex-Gratia Payments approved under the provisions of an Act, budgets, actual performance and variations between actual and budget;

(i) A Statement showing for each account in the Trust Fund, balances at the beginning and end of the reporting period, and the nature of the movement in the reporting period; and

(j) A Statement of Accounting Policies setting out the significant accounting policies on which the financial statements are prepared; and other information specified by the Secretary to the Treasury in Treasury Instructions as required to provide more detailed information or explanations.

BOARD OF DIRECTORS' RESPONSIBILITY

In terms of Statutory Bodies, generally, it is the Board of Directors' responsibility to prepare financial statements that give a true and fair view of the state of affairs of the entity for each financial year. This involves keeping appropriate financial records, and where applicable, following generally accepted accounting principles. However, the Controlling Officer as stipulated by Section 10 of the Public Finance Management Act of 2003 is mandated to ensure that: -

(a) Public funds are only used to the extent, and for the purpose intended and approved by the Board of Directors (whose appointing authority is the Government);

(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 according to approved plans and the estimates.

SCOPE OF AUDIT

In line with Section 13 (1) of the Public Audit Act of 2003, I am required to use Generally Accepted Auditing Practices (GAAP). In order to comply with the GAAPs, the audit of Statutory Bodies is performed in accordance with International Financial Reporting Standards (IFRS).

Following Government adoption of IPSAS Accrual Stage 2 in 2020, this has necessitated the need for the Statutory Bodies to change from IFRS to IPSAS. National Audit Office will scrutinise the transition to ensure it enhances fair presentation of the financial position of the Statutory Bodies. The audit is intended to provide an overall assurance of the general accuracy and propriety of Statutory Bodies financial and accounting transactions. Although the audit is conducted in accordance with International Financial Reporting Standards (IFRS), it does not guarantee absolute accuracy of the accounts or detection of every error, financial irregularities and fraud. However, I provide an assurance in my accounts and audit opinion review as to whether or not the financial statements fairly present in all material respects, the financial position of the Statutory Bodies as at 30th June, of each year, and of its annual financial performance for the year then ended.

The Act also 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. The audits have not been limited to the accounts for the year ended 30th June 2019, but have where necessary extended into the reviews of the preceding years.

PREPARATION AND AUDIT OF FINANCIAL STATEMENTS

The financial statements of the Statutory Bodies are prepared on going concern basis. The International Financial Reporting Standards has been used throughout the years.

Where updates or changes are made to the IFRS this is applied accordingly, however, the Statutory Bodies are encouraged to have early adoption if this will result in enhanced disclosure and greater accountability.

STATUTORY BODIES AND THE AUDIT FIRMS

Section 6 (2) of the Public Audit Act (2003) mandates me to undertake an audit programme to review and approve the audited accounts of Statutory Bodies and conduct audits of any Statutory body that has not had its financial statements audited by a firm of auditors, this includes where I do not approve the audited financial statements. I have the mandate to commence an independent audit of the Statutory Body within thirty (30) days of rejecting the private audit report.

In this consolidated audit report, the audits were either wholly executed by the National Audit Office, as a Supreme Constitutional Audit Institution or outsourced to the private audit firms. Table 1 below gives a detailed account on who audited a Statutory Body for the year ended 30th June, 2019.

Table 1: Statutory Bodies and the Auditors

Serial #	Name of Statutory Body	Auditor
1	ADMARC	Grant Thornton
2	BWB	EY
3	CMST	Graham Carr
4	ESCOM	Deloitte
5	RFA	Deloitte
6	MACRA	Auditor General
7	MERA	AMG Global
8	MRA	Deloitte
9	NFRA	Deloitte
10	PPPC	Deloitte
11	RA	Grant Thornton
12	TCC	Grant Thornton
13	TEVETA	Graham Carr
14	UNIMA	Auditor General
15	EGENCO	Grant Thornton

AUDIT OPINION ON THE ACCOUNTS

I am required to carry a review on the basis of audit opinions of the Statutory Bodies accounts based on the audit by the outsourced audit firms. My review on the basis of audit opinion gives clear endorsement and highlights key audit matters where relevant.

Review of the accounts and Audit Opinion

I have reviewed the audited accounts of the Statutory Bodies for the year ended 30th June 2019 and notes, comprising a summary of significant accounting policies and other explanatory information.

In my review, I have confirmed that the audit opinions on the accounts of the Statutory Bodies present fairly, in all material respect, the financial position of the entities as at 30th June 2019 and of its financial performance for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Public Finance Management Act of 2003.

Basis for Audit Opinions

The following Statutory Bodies had their accounts an opinion on significant issues;

Table 2: Statutory Bodies with opinion highlighting significant qualifying issues

	BASIS OF THE QUALIFIED AUDIT OPINION
BLANTYRE WATER BOARD	
Material uncertainty on Going Concern	• The financial statements (Note 36) indicates that the Board posted a loss before tax of K3.7 billion (2018: K2.8 billion) for the year ended 30th June 2019 and as at that date, current liabilities exceeded current assets by K14.2 billion (2018: K12.8 billion) and accumulated losses amounting to K16.8 billion (2018: K14.9 billion). These conditions along with other matters set forth in note 23 which indicate that a material uncertainty exists that may cast doubt on the Board's ability to continue as a going concern.
ADMARC LIMITED Material uncertainty on Going Concern	• The company registered a profit after tax of K1.96 billion in 2019 (compared to K14 billion in 2018), mainly attributed to other revenue amounting to K14.5 billion comprising reimbursable expenses from Malawi Government of K10.9 billion for running social services on behalf of Government
ESCOM (1) No proof of receipt of diesel and unaccounted for diesel	✔ ESCOM did not provide sufficient and appropriate audit evidence to ascertain that diesel amounting to K1.39 billion procured in 2018 was received and used to generate power. The prior year expenditure has been recycled to equity and the opening balance for 2019 equity includes this amount of diesel being referred to. ✔ Furthermore, ESCOM did not provide sufficient and appropriate audit evidence to account for diesel worth K821 million procured and paid for in 2019

(2) Abuse of financial resources for the corporation amounting to K16 billion	• Based on the review of the minutes of the Directors, it was alleged that some previous employees were responsible for abuse of financial resources at ESCOM. Though a forensic audit was conducted which confirmed that ESCOM suffered a loss of K14.3 billion, from 1st July 2015 to 30th September 2018, ESCOM did not provide records on how the matters were investigated and resolved. Hence the auditors were unable to satisfy themselves whether all the matters identified in the forensic report having an impact on the financial statements have been fully accounted for, and whether any adjustment to the financial statements were necessary.

STATUTORY BODIES REVIEWS

AGRICULTURAL DEVELOPMENT AND MARKETING CORPORATION

Background

ADMARC is a Statutory Body established under the Statutory Corporation Chapter 67:03 of the Laws of Malawi. ADMARC is currently incorporated as a limited liability company, with Government being a major shareholder with up to 99% shares. ADMARC has its head office in Limbe (Blantyre City) and is headed by Chief Executive Officer. The institution has three regional administrative offices (Blantyre, Lilongwe and Mzuzu), each headed by regional manager.

The company operations are overseen by Board of Directors that are appointed by the Government. The Directors are responsible for the affairs of the company under the provisions of the Companies Act and the Public Finance Management Act (2003). The Table 3 below shows names of the Directors, their designation and period of service.

Table 3: Board of Directors of ADMARC

Name	Designation	Period of Service
James Masumbu	Chairperson	Up to 31 December 2018
Paramount Chief Gomani	Director	Up to 31 December 2018
Ken Ndanga	Director	Up to 31 December 2018
Chancy Gondwe	Director	Up to 31 December 2018
Secretary for Agriculture	Ex-officio	Throughout the year
Comptroller of Statutory corporations	Ex-officio	Throughout the year
Secretary to the Treasury	Ex-officio	Throughout the year
Stain Singo	Director	Up to 31 December 2018
Milwald Nyangulu	Director	Up to 31 December 2018
Jaffalie Mussa	Director	Up to 31 December 2018
Umdelanji Mbandambanda	Director	Up to 31 December 2018
James Kaphale	Co.Secretary	Throughout the year

Main Activities

ADMARC is mandated to carry out the following activities: -

(1) **Primary Marketing**

ADMARC through its vast network of markets, buys agricultural produce from both traders and smallholder farmer

(2) **Value Addition**

ADMARC has cotton ginneries, groundnuts grading machine, rice milling plant that enhances value addition

(3) **Warehousing**

ADMARC owns the largest storage facilities and also provide commercial warehousing services that exceeds 300,000 square meters

Review of Operations

ADMARC recorded a surplus of K1.9 billion. The profit is however, mainly attributable to other revenue amounting to K14.5 billion comprising reimbursable expenses from the Malawi Government of K10.9 billion.

ADMARC Income Statement

	2019 K'000	2018 K'000
Revenue	16,937,403	21,171,341
Cost of Sales	(15,168,605)	(13,918,337)
Gross profit/(loss)	1,768,798	7,253,004
Other revenues	14,457,114	20,855,078
Fair value increase on investment property	583,503	682,133
Total Income	**16,809,415**	**28,790,215**
Marketing and administrative expenses	(8,002,162)	(8,676,630)
Operating profit before finance costs	**8,807,253**	**20,113,585**
Finance expenses - Interest expense	(4,132,611)	(5,729,206)
Finance expenses - Interest expense	(20,474)	(60,422)
Profit before income tax expenses	4,654,168	14,323,957
Income tax expense	(2,693,390)	(46,026)
Profit/(loss) for the year	**1,960,778**	**14,277,931**
Other Comprehensive income		
Revaluation of property plant and equipment	-	-
Deferred tax on property revaluations	36,305	66,964
Total comprehensive income/(loss) for the year	**1,997,083**	**14,344,895**

Financial Performance Overview

During the year under review, income generated by ADMARC from its normal operating activities amounted to **K16.9 billion** compared to **K21 billion** which was recorded in the year ended 30th June 2018. Thus, revenue from normal operating activities decreased by 20% in the year ending 30th June, 2019.

Other revenue received amounted to **K14.4 billion** compared to **K20.8 billion** recorded in the year ended 30th June 2018 representing a **31%** decrease. This was mainly attributed to a decrease in expense reimbursements from Malawi Government of **44%** from **K19.7 billion** in 2018 to **K10.9 billion** in 2019. This is income emanating from receivables of prior-financial years from Malawi Government for social services rendered on its behalf. ADMARC did not recognize the income in prior periods because it did not have written agreements that the money would be recovered. However, ADMARC reconciled its figures with Malawi Government and they have come up with a written and signed agreement about the amount owed.

A profit of **K1.9 billion** was registered during the year ended 30th June, 2019 as opposed to a profit of **K14.3 billion** recorded in the financial year ended 30th June, 2018. This represents a net profit margin of 12 % in 2019 compared to a margin of 67% in 2018. The Return on Capital Employed for ADMARC declined during the year from 43 % to 17 % in the year ended 30 June 2019. This was mainly due to a reduction of total revenue of 41%.

Statement of Financial Position (ADMARC)

	2019 K'000	2018 K'000
ASSETS		
NON-CURRENTS ASSETS		
Property, plant and equipment	59,053,267	59,358,697
Investment Property	7,400,000	6,816,497
Associate company		
Total non-current assets	**66,453,267**	**66,175,194**
CURRENT ASSETS		
Inventories	4,564,474	16,001,904
Receivables	15,441,899	23,016,143
Funds at call and on deposit	9,293,621	4,547,375
Bank balances and cash	2,383,571	838,885
Total current assets	**31,683,565**	**44,404,307**
TOTAL ASSETS	**98,136,832**	**110,579,501**
EQUITY AND LIABILITIES		
SHAREHOLDERS EQUITY		
Share capital	1,000	1,000
Advance contribution for capital	7,808,830	7,808,830
Revaluation reserve	42,154,285	42,117,980
Accumulated loss	(13,055,996)	(15,016,774)
Total shareholders' equity	**36,908,119**	**34,911,036**
NON CURRENT LIABILITIES		
Deferred tax liability	11,806,462	9,149,377
Government Grant	2,178,375	2,348,245
Total non-current liabilities	**13,984,837**	**11,497,622**
CURRENT LIABILITIES		
Payables	27,255,061	52,603,171
Bank overdraft	1,559,010	69,317
Pension payable	154,512	272,054
Short-term borrowings	18,275,293	11,226,301
Total current liabilities	**47,243,876**	**64,170,843**
Total Liabilities	**61,228,713**	**75,668,465**
TOTAL EQUITY AND LIABILITIES	**98,136,832**	**110,579,501**

Liquidity

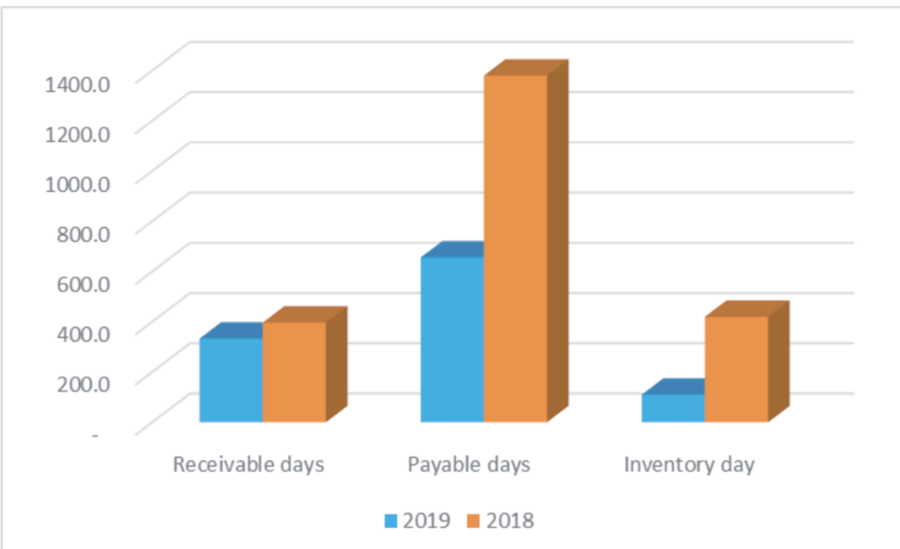
The current ratio measures the ability of a company to settle its current liabilities through disposal of its current assets. ADMARC's current ratio has moved from 0.69:1 in 2018 to 0.67:1. This means that in 2019, ADMARC had only 67 tambala as ready sources of cash to pay every K1 worth of immediate liabilities. This is a sign of liquidity risk since this shows that ADMARC is continuously having the challenge of cash flow management since it has the ability to only pay 67% of its debts when they fall due. Due to the nature of business of ADMARC, absence of cash is a sign of a going concern failure

Working capital management

Inventory turnover days improved during financial year ended 30th June, 2019. It took on average **110 days** to convert inventory into sales compared to **420 days** during previous financial year (2018). Furthermore, ADMARC was taking **333 days** in the year 2019 to convert receivables into cash and cash equivalent as compared to **397 days** during previous financial year. Hence in 2019 Debt collection process improved by 64 days compared to previous year.

On the other hand, there was an improvement on the number of days ADMARC was taking to pay creditors in 2019 (656 days) as opposed to 1,378 days in 2018. Despite this slight improvement, ADMARC is still underperforming on both receivables days and payables days.

Working capital management for ADMARC (Graphical Presentation)



Liabilities

Total Non-Current Liabilities increased by 22% in 2019.This was mainly due to deferred tax liability which increased to K11.8 billion in 2019 from K9.1 billion in 2018, representing a 29% increase.

Audit Opinion

I reviewed and agreed with the audit opinion that ADMARC has a material uncertainty as far as its future business life is concerned as demonstrated by its continued unresolved insolvency issues. I have categorized ADMARC as a **high risk** because the going concern of the Company is dependent on continued support from the Malawi Government. The registered profit of K1.96 billion was mainly attributable to other revenue amounting to K14.5 billion comprising reimbursable expenses from the Malawi Government of K10.9 billion for running social services on behalf of the government. In the absence of these interventions, ADMARC would have incurred a loss of K9.8 billion. Therefore, its operations will be monitored whenever necessary. Government should review the current business model of giving ADMARC a status of a commercial parastatal and still providing subsidy services.

Weaknesses in Financial Controls and Operations

The audit of financial statements of the Agricultural Development and Marketing Corporation for the financial year ended 30th June, 2019 was done by Grant Thornton on behalf of the Auditor General using section 10 of the Public Audit Act (2003)

I highlight some of the weaknesses in financial and internal controls as follows;

(i) Lack of Loan Agreement with CDHIB: K14.5 billion

A review of the company's loan with CDH Investment Bank of K14.5 billion as at year end, revealed that the facility was not supported by any contractual agreement between the company and the bank.

(ii) Lack of Supplier Account Reconciliations

A review of year end account payable reconciliations, revealed that the following supplier accounts did not have reconciliations schedules

Supplier	**Amount (K)**
The Road Transport Operators	55,804,975.18
Goneka E.R	6,783,491.61
Malawi Shipping Company	4,188,708.90
G.G.Luhanga	26,416,163.95
Changa K Rent A Car	31,885,000.00
Mpale Cultural Village	5,252,307.00

(iii) Controls Over Dormant Accounts Need Improvement

A review of the company's general ledger revealed that the entity has a number of dormant accounts which are not being reconciled and these accounts continue attracting bank charges as summarized below

Acct. Code	Acct. Name & Bank	Amount
130021	NBM Fertilizer Account (S) (20886181)	(162,784.26)
130031	Eco Bank Chitawira	75,701,221.42
130101	Eco bank Paymasters South	(112,260.04)
130750	EDF	(2,614,960.53)
130041	FMB Lilongwe Fertilizer (80017000010002)	(81,831.00)

(iv) Lack Of Title Deeds/Documents To The Company's Fixed Assets

The audit team was not able to review title documents/deeds for the land and buildings and the original certificate of lease for the investment property, ADMARC Welfare Complex-situated in Kanjedza on plot numbers LW 1264 and LW 1265.

For the ADMARC Welfare Complex, the audit team was given faded copy of the Certificate of Lease (number Limbe West KJ23/1/1).

(v) Recoverability Of Long Outstanding Staff Loans K15 Million

The company provided a loan of K15 million to a member of staff, now former employee) on condition that the amount would be recovered through the payroll.

However, it was observed that no deductions have been made. Further inquiry indicated that the member is no longer with ADMARC and that there are no repayment plans in place.

(vi) Non Compliance With Taxation Act In Respect Of Filing Of Returns

As per Taxation laws of Malawi, every registered tax payer is required to submit the following returns for assessment;

- Corporation Tax
- Pay As You Earn (PAYE)
- Value Added Tax (VAT)
- Withholding Tax
- Fringe Benefit Tax (FBT)

However, there was no evidence that these returns were filed with the Malawi Revenue Authority for their assessment.


For your convenience,
You can also pay your Water Bills
At FMB Branch or Agency
FMB

Background

Blantyre Water Board is a Statutory Body established under an Act of Parliament and subsequently reconstituted under the Malawi Water Works Act No. 17 of 1995 to supply portable water for commercial, industrial, institutional and domestic use in the supply area of Blantyre City and surrounding areas. Its mission is to provide reliable and affordable water supply services to customers whilst contributing to the development of the national economy and sustenance of the environment. Apart from Blantyre City, BWB supplies water to surrounding areas such as Bvumbwe and Chiradzulu. The company operations are overseen by the Board of Directors that are appointed by the Government. The Directors are responsible for the affairs of the organization under the Malawi Water Works Act No. 17 of 1995 and the Public Finance Management Act.

Table 4: Tenure and list of Directors for BWB.

Name	Designation	Period of Service
J. Naphambo	Chairman	Throughout the year
Mrs. M. Kachingwe	Member	Throughout the year
Mr. F. Maele	Member	Throughout the year
Mrs. A. Chipaka	Member	Throughout the year
Mr. M. Saidi	Member	Throughout the year
Mr. L. Phekani	Member	Throughout the year
Mrs. C. Nchoma Makoka	Member	Throughout the year
Senior Chief Chikumbu	Member	Throughout the year
Secretary for Irrigation & Water Dvp.	Ex-Officio Member	Throughout the year
Controller of Statutory corporations	Ex-Officio Member	Throughout the year
Secretary to the Treasury	Ex-Officio Member	Throughout the year
CEO, Blantyre City Council	Ex-Officio Member	Throughout the year
Mr. P.Chiumia	Co. Secretary	Throughout the year

Main Activities

BWB operates through three zones namely Kabula, Soche and Limbe. The zones provide the following:

(1) New water connections

The process is as follows; once an application is received with all necessary attachments, BWB conducts an assessment of the location. Once assessment is done, a quotation is issued within two weeks. Once payment is done connection is made within four weeks

(2) Customer services

This include bill enquiry, general supplying of the water and of course water disconnection if the case of defaulters.

(3) Fault repairing

Any faults can be reported through phone call, visiting the office or online reporting.

(4) Meter reading

BWB has recruited meter readers who visit the supplied premises and gets meter reading for billing. This is exception to prepaid services.

Main Project

Currently, BWB is implementing the Likhubula Water Supply Project. The project has a bearing on future cash flows of the Blantyre Water Board and delivery of its services. However, the project will have a bearing on BWB performance from 2019 financial year.

Review of Operations

High electricity bills continue to pose a challenge to the Board taking up almost 40% of Boards monthly operating expenses. Failure by Government to settle bills is also contributing to BWB losses which in turn is affecting operations of the institutions.

Financial Performance Overview

During the financial year ended 30th June, 2019, income generated by Blantyre Water Board from its normal operating activities amounted to K17.3 billion compared to K14.8 billion that was recorded in the year ended 30 June 2018. Thus, revenue increased by 16.3% in the year ending 30th June, 2019.

A total loss of K1.9 billion was registered during the year ended 30th June 2019 as opposed to loss of K2.4 billion recorded in the financial year ending 30th June 2018. Thus, the Board registered a decrease in total loss of about K0.5 billion from previous financial year and a cumulative loss of K4.2 Billion for the two financial years. However, after revaluing its reticulation, the Board registered revaluation surplus of K30.7 billion. This combined with other comprehensive income totaling K21.5 billion pushed the Board to register total comprehensive income amounting to K19.6 billion in 2019 as compared to total comprehensive loss amounting to K2.3 registered in 2018

Statement of Comprehensive Income (BWB)

	2019	**2018**
	K'000	**K'000**
Revenue	17,260,916	14,844,521
Cost of Sales	(9,755,086)	(7,514,386)
Gross Profit	**7,505,830**	**7,330,135**
Other income	1,736,975	870,209
Total	**9,242,805**	**8,200,344**

Selling and distribution costs	(2,193,151)	(2,270,490)
Administrative expenses	(8,301,887)	(6,660,405)
Finance costs	(2,489,621)	(2,057,891)
Total operating cost	**(12,984,659)**	**(10,988,786)**
Loss before tax	**(3,741,854)**	**(2,788,442)**
Income tax expense	1,863,842	409,014
Loss for the year	**(1,878,012)**	**(2,379,428**
Other comprehensive income		
Revaluation surplus on reticulation	30,724,376	0
Deferred tax on revaluation surplus	(9,217,313)	46,094
Total other comprehensive income	21,507,063	46,094
Total comprehensive income	**19,629,051**	**(2,333,334)**

Statement of Financial Position (BWB)

	2019	**2018**
	K'000	**K'000**
ASSETS		
NON-CURRENTS ASSETS		
Property, plant and equipment	76,686,865	32,773,742
Intangible assets	74,433	75,454
Home ownership loans	2,214	8,412
Total Non-Current assets	**76,763,512**	**32,857,608**
CURRENT ASSETS		
Home ownership loans	3,286	5,544
Inventories	1,896,581	405,659
Related party receivables	2,437,340	4,922,063
Trade and other receivable	2,700,863	1,963,688
Cash and bank balances	145,064	189,861
Tax recoverable	187,200	112,952
Total current assets	**7,370,334**	**7,599,767**
TOTAL ASSETS	**84,133,846**	**40,457,375**
EQUITY AND LIABILITIES		
Capital contribution	1,433,961	1,433,961
Revaluation reserve	30,299,218	8,794,263
Accumulated loss	(16,823,552)	(14,947,648)
Total (deficit)/equity	**14,909,627**	**(4,719,424)**

NON CURRENT LIABILITIES		
Deferred tax liability	15,534,948	8,181,477
Long term borrowings	29,400,567	13,623,912
Deferred income	2,696,452	2,914,538
Employee benefits	11,974.00	17,998
Total Non-Current Liabilities	**47,643,941.00**	**24,737,925**
CURRENT LIABILITIES		
Related party payables	5,428,509	4,073,467
Bank overdraft	1,003,728	670,130
Current portion of borrowings	9,484,542	6,777,474
Deferred income	974,644	591,920
Recalled grant payables	722,990	1,863,610
Trade and other payables	2,936,210	3,830,651
Accruals and provisions	1,029,655	2,631,622
Total current liabilities	**21,580,278**	**20,438,874**
TOTAL LIABILITIES	**69,224,219**	**45,176,799**
TOTAL EQUITY AND LIABILITIES	**84,133,846**	**40,457,375**

Financial Position Analysis

Liquidity

BWB has a current ratio of 0.34:1, there is no improvement to the performance in 2018 which was 0.37:1. This means that in 2019, BWB still cannot settle their current liabilities using its current assets. This means that BWB has only 34 tambala as ready sources of cash to pay every K1 worth of immediate liabilities. This is a clear sign of liquidity risk since BWB has the ability to only pay 34% of its debts when they fall due

Working capital management

It took Blantyre Water Board 57 days on average to collect cash from its debtors as opposed to 48 days in prior year. Further, Blantyre Water Board did not improve in paying its creditors in 2019, as it took on average 109 days as opposed to 186 days in 2018.

As at the year end the Blantyre Water Board cash position has worsened as compared to the previous financial year. As at the end of the 2018financial year, Blantyre Water Board had a cash and cash equivalents balance amounting to K0.48 billion. For the 2019 financial year Blantyre Water Board had cash and cash equivalents of K0.858 billion representing an increase in cash flow deficit of 79%.

BWB made a huge expenditure on inventory procurement of Pipes and fittings worthy K1.8 billion in 2019 compared to K405.6 million in 2018 representing an increase of 367%, during the time when the cash flow is declining.

Liabilities

Total liabilities for BWB is K69.2 billion against a total asset base of K84.1 billion. This provides debt ratio of less than 1 which is considered less risky.

Out of K69.2 billion, amount of K53.4 billion loan relates to the loans awarded by International Bank, European Investment Bank (EIB) and Exim Bank of India through the Malawi Government. The due payable current portion of these loans is K722.9 million. The grant was recalled by EIB in 2018 due to breach of grant conditions (procurement procedures not followed) as stipulated in the grant agreement.

Going Concern

The following going concern indicators were present for the year ended June 2019:

(1) Increase in net current liability position

A review of the financial statements as at 30 June 2019 indicated that the Board was in net current liability position of K14.2 Billion (2018: K12.8 billion) which is an indicator of insolvency and potential going concern implications.

(2) Continued loss making status by the BWB

The Board made a loss before tax of K3.7 billion for the year ended 30 June 2019 (2018: K2.8 billion). The persistent losses are an indication of insolvency.

The loss for the year was largely attributable to increase in the cost of electricity that went up by K2.1 billion and increase in administrative expenses to K8.3 billion occasioned by exchange losses that increased by K825 million and salaries and wages that went up by K551 million.

Finance cost increased to K2.5 billion mainly on account of long term borrowing that went up by K16 billion in 2019 FY.

Significant Credit risk /Working capital pressure

The board receivables as at 30 June 2019 amounted to K5.1 billion whilst current payables including current portion of borrowings and bank overdraft amounted to K18.6 billion. The Boards biggest customers are Government owned institutions which owed the Board K4.4 billion of which K1.35 billion was from 2018 and prior years.

The Board's credit risk is significantly high especially on Government related institutions. The Boards net current liability has worsened owing to credit risk. The board had to borrow some funds locally to buy prepaid meters and to finance other operations because of non-collection of receivables from Government.

Reserves

The accumulated reserves are also in losses from last year amounting to K14.9 billion and K18.2 billion in 2019.

Audit Opinion

I reviewed and agreed with the basis for which the adverse opinion of BWB was issued. Being an adverse opinion, I therefore, categorized BWB as **high risk** and requires immediate review and enhancement. Additionally, the Governance arrangement, roles of top management and their performance should be assessed especially for the period under review or before to ascertain their contribution to the going concern problems of BWB.

Weaknesses in Financial Controls and Operations

Revenue recognition

The IT audit procedure on the pre-paid and post-paid systems revealed irregularities related to tariffs that were being levied resulting in net overstatement of revenue by K131 million. The pre-paid system revealed overstatement which indicates an overcharge amounting to K133 million to customers.

Non-Revenue Water (NRW)

The Boards non-revenue water for 2018/2019 averaged 42 %which was much higher than its own target and expected industry average of around 25 %-28%.

Non-Existence Customers Account-Narrated as "Not found of properties" account

The water receivables listing as at 30th June, 2019 included an Account # 1000000, described as "Not –found owners of properties" with balance of K135,224,821. Further inquiries with management, indicated that the account related to meters that were removed from the system but there is a system error that still results in a fee being charged to closed accounts. We understand the charges are expected to stop when the accounts have been completely removed.

The amount of K135 million sitting in this account is therefore not recoverable and the balance keeps on increasing year after.

Non-Compliance with Regulations

Our review on compliance established long outstanding unremitted Pensions of K745 million. In addition, the Board did not also remit life insurance premiums which resulted in non-recovery of claims

Controls over prepaid meters: K1.2 billion

The entity did not provide inventory listing during 2019 stock counts as a result the auditors team did not count some of the high valued items including the prepaid meters amounting to K1.2 billion

CENTRAL MEDICAL STORES TRUST (CMST)

Background

Central Medical Stores Trust (CMST) is a Government of Malawi entity established under the Trustees Incorporation Rules (CAP. 5: 03) on 16th August, 2011 and is responsible for procurement, storage and distribution of medicines, medical supplies and related products to the Government health facilities and approved non-governmental facilities. As such the audit is required to ascertain the financial position of the Trust.

Table 5: Tenure and list of Directors for CMST

Name	Designation	Period of Service
Hilda Singo	Board Chair	Full year
Ms. Chifundo Kalaile	Member	Served up to 28th February 2019
John Mponda	Member	Served up to 28th February 2019
Andrew Chikopa	Member	Served up to 31st December 2018
Dr Titha Dzowela	Member	Served from 1st January 2019
Alfie Banda	Ex-officio member	Full Year
Cliff Chiunda	Ex-officio member	Full Year
Dr Dan Namarika	Ex-officio member	Full Year

Review of Operations

Central Medical Stores Trust which is responsible for procurement, storage and distribution of medicines, medical supplies and related products to the government health facilities and approved non-governmental facilities realized a deficit of (K3.1 billion) for the year ended 30th June 2019 as compared to profit of K1.1 billion for the year ended 30th June 2018. The loss registered is mainly due to increase in boarded off items/ expired stock of about K5 billion (K4.1 billion in 2018)

Both revenue and cost of sales for the year increased by 16%. The gross profit margin was almost 16.7% from the previous year (2017/2018).

CMST Income Statement

	2019	**2018**
	K'000	**K'000**
Revenue	19,950,591	17,228,018
Costs of Sales	(16,883,369)	(14,600,887)
Gross profit	3,067,222	2,627,131
Other Income	1,411,140	609,078
Administrative expenses	(10,303,394)	(8,707,079)
Distribution costs	(100,951)	(48,498)
(Loss) before impairment of receivables	(5,925,983)	(5,519,368)
Impairment loss reversal	2,755,589	6,590,986
Loss)/Profit for the year	(3.170,394)	1,071,618
Other comprehensive income		
Assets received from UNICEF	149,169	490,635
Amortization of capital fund assets	(113,044)	(32,709)
Revaluation surplus	-	1,356,540
Total other comprehensive income	**36,125**	**1,814,466**
Total comprehensive income/(loss) for the year	**(3,134,269)**	**2,886,084**

Financial Performance Overview

During the year under review, income generated by CMST amounted to **K19.9 million** compared to **K17.2 million** which was recorded in the year ended 30th June 2018. This demonstrates a revenue increase of **15.8%.**

Statement of Financial Position

	2019 K'000	2018 K'000 Restated
ASSETS		
NON-CURRENTS ASSETS		
Property, plant and equipment	9,239,380	9,260,280
Long term staff receivables	81,800	81,800
Total Non- Current Assets	**9,321,180**	**9,342,080**
CURRENT ASSETS		
Inventories	20,313,268	24,246,822
Trade and other receivables	2,155,213	480,435
Cash and cash equivalents	1,415,296	2,152,693
Total current assets	23,883,777	26,879,950
TOTAL ASSETS	**33,204,957**	**36,222,030**
RESERVES AND LIABILITIES		
Reserves		
Treasury funds	16,823,775	16,823,775
Capital funds	494,052	457,926
Revaluation reserve	6,820,331	7,049,782
Accumulated loss	(3,254,100)	(313,253)
Total reserves	**20,884,058**	**24,018,230**
CURRENT LIABILITIES		
Trade and other payables	12,320,899	12,203,800
Total reserves and liabilities	**33,204,957**	**36,222,030**

Financial Position Analysis

Liquidity

CMST has a current ratio of 1.94: 1 a decrease to the performance in 2018 which was 2.20:1. However, since the current assets also include inventory which is a key business ingredient for the CMST and because of loss through expiry, the adjusted current ratios are 1.53:1 for 2019 (1.86:1 for 2018). Procurement, storage and distribution of drugs is capital intensive and liquidity is key, therefore the current ratios, as they are now a bit unfavourable. Now that the entity is a Trust, it was the general expectation that the liquidity issues should be something of the past if compared to the time when the entity was a Treasury Fund.

Working capital management

Inventory turnover days improved during financial year ended 30th June 2019. It took on average **439 days** to convert inventory into sales compared to **606 days** during previous financial year. Despite an improvement on inventory turnover days, this did not improve cash flow but rather an increase in payables of about K12.3 million (K12.3 million for year 2019 and K12.2 million for year 2018). CMST was taking 39 Receivable days on average to collect cash from its debtors as opposed to **10 days** in 2018. On its payables days **CMST** was taking **266 days** in 2019 to make payments as opposed to **305 days** in 2018, showing an improvement in its cash flow. However, the long inventory turnovers are a source of expiry of drugs. The whole supply chain needs a rigorous review otherwise this is a big problem for CMST

Due to cash available on the basis of procurement, storage and distribution of medicines, medical supplies and related products to the government health facilities and approved non-governmental sales, CMST had a decrease in cash and cash equivalent as compared to the previous financial year. CMST had a decrease of cash position of **K1.4 million** in 2019 to a positive cash and cash equivalents of **K2.1 million** as at the end of the 2017/2018 financial year.

Liabilities

CMST liabilities is **K12.3 million** being trade payables in 2019, as compared to K12.2 billion in 2018 this shows that in 2019, there wasn't a significant change in liabilities for the CMST.

Audit Opinion

I reviewed and agreed with the basis for the issued opinion of Central Medical Stores Trust (CMST) which highlighted issue of existence and valuation of inventories as Key Audit Matter. CMST has been categorized as **medium risk.**

Weaknesses in Financial Controls and Operations

The audit of financial statements of the Central Medical Stores Trustee for the financial year ended 30th June, 2019 was done by Graham Car (Audit firm) on behalf of the Auditor General using section 10 of the Public Audit Act No 6 of 2003. We highlight some of the weaknesses in financial and internal controls as follows;

Inventory decreased by K4.0 billion from K24.2 billion in 2018 as compared to K20.3 billion in the current financial year (2019). The decrease can be due to expired boarded off items and over-procured stores which were not sold to the clients/customers of CMST

No Tittle Deeds for Land and Buildings

A review of the assets register disclosed that some properties like land and buildings which are owned by Central Medical Stores Trust have no tittle deeds. It was also noted that CMST has houses which are being rented out by staff members from Ministry of Health

In the absence of the title deeds, ownership of the land and buildings of CMST could be disputed.

Non Payment of House Rentals: - K16,020,000.00

Central Medical Stores Trust (CMST) owns residential houses which it rents out to staff members and deducts rentals for maintenance purposes. However, there are 13 class D houses and 12 class E houses that are occupied by the Ministry of Health staff members. These tenants do not pay any rentals on the property and as such they do not meet the recognition under IAS 16 as CMST does not receive any economic benefits from the assets. Further review of the rental records disclosed that the total annual rentals not collected by CMST every year from Lilongwe houses were assessed at K16,020,000.000.00

Failure to recover receivables: - K2.9 Billion

Central Medical Stores Trust (CMST) has a problem in debt collection which resulted in about K2.9 billion being provided for as doubtful. Out of K4.5 billion tested, only K1.2 billion has been recovered after year end to date.

Under- charging of Interest on loans granted to employees

Central Medical Stores Trust (CMST) gives loans to its employees to purchase cars, houses or furniture out of which it charges interest on the loans at a lower rate of 10% than the commercial lending rate of 24.9%.

The Taxation Act requires the company to pay fringe benefits tax on the difference between a lower rate of 10% and commercial rate of 24.9% (i.e. 14.9%). However, no fringe benefit tax on the difference between the interest rate charged by CMST and the commercial lending interest rate was paid.

Increase in stock write-offs and provision from K1.0 billion to K4.0 billion

An examination of stocks disclosed that stock write- offs and provision has significantly increased from K1.0 billion to K4.0 billion. This is an indication that there are inefficiencies in stock management processes which have led CMST having large quantities tie of stock that are not on demand. As a result, Central Medical Stores Trust is unable to sell these stock items before they expire.

Lack of performance framework on ICT policy/frame work

Though Central Medical Stores Trust established an ICT policy, it was noted that the entity lacks performance due to over reliance on vendor based Service Level Agreement (SLA) monitor reports, thus, the ICT department does not track, nor report on deviation of SLA`s without the vendor`s permission.

No ICT Strategic plan

A strategic ICT plan details ICT goals and objectives which must be aligned to departmental strategies. However, it was noted that CMST has no ICT strategic plan.

Purchases not linked to the procumbent plan

Central Medical Stores Trust had a procurement plan for 2018/2019 financial year. However, it was noted that the plan lacked adequate details and may not be useful to ensure the availability of the right medicines, in the right quantities, at the lowest possible cost, at the right time and at recognized standards of quality. The plan lacks appropriate categorization and packaging of the requirements into items of similar nature especially medicines and medical supplies.

It was observed that it was difficult to monitor the implementation of the plan since the procurements which were made did not directly link to the procurement plan. Information such as procurement number, package number, prior/post review, detailed time schedules etc., were missing on the plan. All the items have been lumped together as one-line item in the plan and therefore it is impossible to link the plan to actual list of all procurements that have been carried out during the year under review. CMST maintains register of all procurements raised during the year in sequential number order, on this anomaly there was no connection to the procurement plan.

Bid solicitation documents and Contracts not approved

Generally, the Procurement and Disposal Unit developed bid solicitation documents adequately for most of the procurements reviewed. Bidding documents in 3 out of the 11 procurement reviewed however were not approved by the IPDDC prior to solicitation of bids or quotation. It was also noted that some documents in these procurement had some minor errors which could have been avoided if there was quality control system in place.

For example, signed contracts reviewed on delivery and completion schedule referred the successful bidder to incoterms specified in the ITB regarding the interpretation of the delivery period yet this was a contract. Refer to the following contracts CMST/G/MMS/017/00047-03; CMST/G/MMS/016/000332-05 just to mention a few.

ELECTRICITY SUPPLY COMMISSION OF MALAWI (ESCOM)

Background

Electricity Supply Corporation of Malawi LTD, ESCOM was established by ACT of Parliament in 1957 (revised in 1963 and then the 1998) as the only electrical power supplier in Malawi. ESCOM was charged with the responsibility of Generation (GX), Transmission (Tx), and Distribution (Dx) of electricity to consumers throughout the country. The corporation is also responsible for maintenance of the sector assets and planning for system expansion to meet growing demand for electricity in the country which is over 400 megawatts against available generation capacity of 267MW.

The following directors served in office during the year covered by these financial statements:

Table 6: Tenure and list of Board of Directors for ESCOM

Dr. Thom Mpinganjira	Chairperson	Throughout the year
Prof. Grant Kululanga	Director	Throughout the year
Pastor Tony Nyirenda	Director	Throughout the year
Mr. Shrieesh Betgiri	Director	Throughout the year
Mr. Chikumbutso Kalilombe	Director	Up to 8th October, 2018
Mr. Chikumbutso Mkwamba	Director	Up to 8th October, 2018
Mrs. Victoria Mponela	Director	Up to 31st March, 2019
Mr. Frank Kunje	Director	From 1st January, 2019
Mrs. Leffa Mnenula	Director	From 1st April, 2019
Ms. Felistus Dossi	Director	From 1st April, 2019
Secretary for Natural Resources	Ex officio	Throughout the year
Budget Director: MoF	Ex officio	Throughout the year
Comptroller of SC	Ex officio	Throughout the year
Dr. Alfred Kaponda	Company Secretary	Up to 31st October, 2018
Ms. Matilda Zande	Company Secretary	From 1st November, 2018

Main Activities

The Corporation was involved in the transmission and distribution of electricity and letting out of fibre-optic line to users in data transmission.

Review of Operations

The 2016 Electricity Amendment Act changed the role of ESCOM from being an electricity generation entity to procurement, transmission and distribution of power.

Financial Performance Overview

Statement of Comprehensive Income

	2019 K'000	**2018 K'000**
INCOME		
Revenue	130,585,143	89,811,973
Cost of Sales	(81,785,654)	(47,383,996)
Gross Profit Margin	48,799,489	42,427,977
Other income	10,798,545	5,584,367
Gross Profit	**59, 598, 034**	**48,012,344**
EXPENDITURE		
Single Buyer expenses	784,203	2,642,425
Transmission System & Market Operator expenses	9,819,540	5,116,918

Distribution expenses	26,639,588	19,146,737
Head office expenses	36,231,319	40,110,436
Total expenditure	**73,474,650**	**67,016,516**
Operating Profit/(loss)	**(13,468,045)**	**(19,004,172)**
Finance income	987,050	740,504
Finance expense	578,478	254,024
Net finance income	408,572	486,480
Profit/(Loss) before income tax credit	**(13,468,045)**	**(18,517,692)**
Income tax credit	5457,383	5,554,306
Profit/(Loss) for the year	(8,010,660)	(12,963,386)
Total comprehensive income for the year	**(8,010,660)**	**(12,963,386)**

During the year under review, income generated by ESCOM from its normal operating activities amounted to **K130.6 billion** compared to **K89.8 billion** which was recorded in the year ended 30th June 2018.Thus, revenue increased by **48%** in the year ending 30th June, 2019.

A loss of **K8.0 billion** was registered during the year ended 30th June, 2019 as opposed to loss of **K13 billion** recorded in the financial year ended 30th June, 2018. This represents a net loss of **K21 billion** for the cumulative two comparable years. The Return on Capital Employed for ESCOM declined during the year from 16 % to 6 % in the year ended 30th June, 2019. This can be attributed to the increase in the investment in Property, Plant and Equipment which has not yet started generating or paying back profits.

Statement of Financial Position (ESCOM)

	2019 K'000	**2018 K'000**
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	219,045,490	100,061,184
Intangible asset	8,989,646	4,368,549
Capital work in progress	1,161,647	23,954,469
Deferred tax	5,378,175	43,457
Trade and other receivables	966,386	859,443
Total non-current assets	**235,541,344**	**129,287,102**
Current assets		
Inventories	8,207,747	13,264,635
Trade and other receivables	32,712,088	29,157,599
Tax recoverable	966,311	615,324
Cash and cash equivalents	15,947,451	4,399,946
Total current assets	**57,833,597**	**47,437,504**
TOTAL ASSETS	**293,374,941**	**176,724,606**

EQUITY AND LIABILITIES

Shareholders' equity		
Share capital	110,000	110,000
Share premium	13,750,820	13,750,820
Preference shares	530,000	530,000
Advance contribution for share capital	12,885,036	12,885,036
Pre-incorporation reserves	391,142	391,142
Revaluation reserves	7,737,706	7,926,164
Accumulated (losses)/retained earnings	(7,192,816)	8,374,044
Total shareholders' equity	**28,211,888**	**43,967,206**
Non-current liabilities		
Deferred income-Governments Grant & capital contributions	153,979,202	49,958,995
Customer deposits	559,098	480,868
Long term borrowings	47,146,864	26,765,071
Total non-current liabilities	**201,685,164**	**77,204,934**
Current liabilities		
Trade and other payables	55,899,131	53,679,376
Deferred income	935,943	770,266
Borrowings repayable within one year	6,642,815	1,102,824
Total current liabilities	**63,477,889**	**55,552,466**
Total equity and liabilities	**293,374,941**	**176,724,606**

Liquidity

ESCOM has a current ratio of 0.91:1, a decline to the performance in 2018 which was 0.85:1. This means that in 2019, ESCOM had only 91 tambala as ready sources of cash to pay every K1 worth of immediate liabilities. Through deductive analysis, the situation is worse than it looks and sounds because despite enjoying the monopolistic status of transmitting and distributing electricity, ESCOM still has a high liquidity risk.

Working capital management

Inventory turnover days improved during financial year ended 30 June 2019. It took on average **36 days** to convert inventory into sales compared to **102 days** during previous financial year. Despite an improvement on inventory turnover days, there was an increase in receivables of about K3.5 billion (K32.7 billion for year 2019 and K29.2 billion for year 2018). ESCOM took **91 Receivable days** on average to collect cash from its debtors as opposed to **119 days** in prior year. ESCOM was taking **249 days** in 2019 to make payments to its creditors as opposed to **413 days** in 2018, there was a slight improvement in payables days as compared to the previous year.

ESCOM cash and cash equivalent position improved from K4.4 billion in 2018 to K15.9 billion in 2019

Liabilities

ESCOM Non-Current Liabilities is K202 billion made up of K154 billion deferred Income-Government grant and capital contributions, K0.5 billion being customer deposits and K47 billion being long term billion being deposits. The debt ratio of ESCOM increased from 38% in 2018 to 71% in 2019 this is therefore considered to be high risk.

Audit Opinion

I reviewed and agreed with the basis for which a qualified opinion of ESCOM was issued. The basis of the qualified opinion was:

(1) No proof of receipt of diesel (2018 FY: K1.39 billion) and unaccounted for diesel (2019 FY: K821 Million); and

(2) Abuse of financial resources for the corporation amounting to K16 billion

Based on the two issues and other weaknesses in financial controls and operations of ESCOM, I have categorized ESCOM as a high risk.

Weaknesses in Financial Controls and Operations

As at the date of our review, the department did not have a fully qualified I.T Auditor. In light of the significance of I.T infrastructure and related controls to the Corporation's operations, it is imperative that the Corporation should seriously consider recruiting an I.T auditor.

(1) Lack of approval thresholds when re-billing customers

When customers are incorrectly billed due to various errors such as capturing of incorrect meter readings, the Corporation rebills the customer through a rebill form. This process is initiated when a customer raises a complaint and management deems it valid for a rebill to be made. We noted that the forms are approved by the Revenue Accountant and/or anyone above him regardless of the significance of the rebill. This may result in instances where significant changes are made and approved by lower level personnel.

(2) Un-updated Memorandum of Association

The Corporation has not updated its Memorandum of Association since the unbundling of ESCOM Limited in2017. The unbundling created two separate companies, one responsible for power generation (EGENCO Limited) and the other responsible for distribution (ESCOM Limited). The updated memorandum of association was supposed to reflect this change. An organisation's memorandum of association regulates a company's external activities and must be drawn up on the formation of a registered or incorporated company. The company's charter (together with the company's articles of association) forms the company's constitution.

(3) Irregularities Noted For Tender Evaluation Process for Tender ESC000 01 for The Demolition Of Burnt ESCOM Building

Tender number ESC000 01 for the demolition of burnt ESCOM building had five participating bidders. It was however noted that two bidders, Roja Construction (B1) which did not submit Power of attorney and Irrigator and Mining Equipment (B5) which did not submit current registration with National Construction Industry Council, (these were some of the documents that were required at the preliminary stage of the Bid Evaluation (Stage 1), were cited as having passed Stage 1 evaluation criteria.

Irrigator and Mining Equipment was subsequently cited as the winner with a bid value of **K675 million** on the basis that it was the only entity that met the proceeding qualifying criteria, that is Technical Examination (Stage 2) and Financial Examination (Stage 3) despite the anomalies noted in preliminary stage of the Bid Evaluation (Stage 1).

(4) Unaccounted For Fuel: K821 million

Included in the cost of sales was cost of diesel amounting to K20.5 billion inclusive of transport costs (2018: K9.5 billion). ESCOM did not provide Sufficient and appropriate audit evidence to ascertain that diesel amounting to MK1.39 billion procured in 2018 was received and used to generate power. The prior year expenditure has been recycled to equity and the opening balance for 2019 equity includes this amount of diesel being referred to.

Furthermore, bbased on the power produced by the power generation equipment, ESCOM did not provide sufficient and appropriate audit evidence to account for diesel worth MK821 million procured and paid for in 2019

We noted that efficiency tests of the generators were not carried out and therefore, the unaccounted for fuel could be due to misappropriation or loss arising from generation.

ROADS FUND (RF)

Background

Road Fund Administration (RFA), a secretariat of the Roads Fund (RF) is a statutory entity established by the Roads Fund Administration Act No. 4 of 2006 and under Statutory Corporation Chapter 67:03 of the Laws of Malawi to raise, administer and account for funds for construction, maintenance and rehabilitation of public roads in an economical, efficient, effective, transparent and sustainable manner for the benefit of road users of Malawi. Road Fund Administration is headed by Chief Executive Officer.

The company operations are overseen by the Board of Directors that are appointed by the Government. The Directors are responsible for the affairs of the company under the provisions of the Companies Act and the Public Finance Management Act of 2003. The Table 7 below shows names of the Director, their designation and period of service.

Table 7: Tenure and list of Roads Fund Directors

Name	Designation	Period of Service
Mr. Chancy Gondwe	Chairperson	Served throughout the year
Mr. Paul Guta	Commissioner	Served throughout the year
Rt Rev. Dr Joseph Bvumbe	Commissioner	Served throughout the year
Mr. Lester Tandwe	Commissioner	Served throughout the year
Stanley Chuthi	Commissioner	Served throughout the year
Mr. Ben Botolo	Ex-Officio	Served throughout the year
Mr. Peter Simbi	Ex-Officio	Served throughout the year

Main Activities

Road Fund & RFA has the following main activities;

1. Mobilization of Roads Fund resources

RFA arranges for the collection of monies assigned to the Roads Fund and recommends to the Minister of Finance and other road users charges and tariffs and funding strategies as required. In this regard, the RFA has for efficiencies outsourced the collection of the International Transit Fees and Road Access Fees to Malawi Revenue Authority (MRA) and the collection of fuel levies to the Malawi Energy Regulatory Authority (MERA).

2. Financing of approved annual road works, road safety and traffic management programmes

The RFA allocates to the implementing agencies financial resources for the maintenance and rehabilitation of public roads based on the percentage of the approved Annual National Roads Programmes and for selected approved road safety and traffic management programmes. The RFA then finances the approved programmes and emergencies according to financing agreements entered into between the RFA and the implementing agencies.

3. Total and timely accountability of Road Fund

The RFA coordinates and ensures total and timely accountability of Roads Fund.

4. Administration and management of other road sector funds

The RFA administer and manages resources made available to it by the Government and its cooperating and development partners for the implementation of projects for the construction, maintenance and rehabilitation of public roads and other related activities. This function includes facilitation of compensation payments to projects affected people on the road projects as requested by the Government.

5. Assurance of Value for Money in the use of Roads Funds

The Road Fund Administration ensures value for money for all activities financed from Roads Fund ort the RFA-managed funds.

6. Agency collection of Value Added Tax and NCIC Levy

The RFA- under agency agreements with the National Construction Industry Council (NCIC) and the Malawi Revenue Authority (MRA)-directly collects NCIC Levy and Value Added Tax on behalf of NCIC and MRA from the contractors and consultants at the time of payment for road works contractors' certificates and consultant' invoices.

Financial Performance Overview

This report has focused on presenting financial statements of the Roads Fund but the Fund Administration (RFA), the latter is an expense under RF and is highlighted as such. During the year under review, income generated by Roads Fund from the operating activities amounted to **K42.4 billion** compared to **K37.8 billion** which was recorded in the year ended 30th June 2018.Thus, revenue increased by 37.8% in the year ending 30 June 2019

Road Fund registered a deficit of K12.9 billion for the year ended June, 2019 as compared to K17.4 billion recorded in the financial year 2018. The deficit for Road Fund increased during the year 2019 reduced by 16.7% from the previous year However, the Fund has been registering annual deficits in its operations for two consecutive years.

Income of Comprehensive Statement (RF)

	2019 K'000	**2018 K'000**
INCOME		
Fuel Levy	37,123,621	1,850,724
Roads User charges	4,191,119	3,708,602
Interest Income	812,065	2,123,254
Sundry Income	269,965	121,805
TOTAL INCOME	**42,396,770**	**37,804,385**
EXPENDITURE		
Roads Works expenditure	46,607,062	32,459,789
Roads Authority Funding	4,200,000	3,125,000
Roads Fund Administration funding	1,437,180	1,242,875
Provision for doubtful receivables	-	129,527
Roads Traffic &Safety programmes	1,363,028	507,952
Street Lighting Project	97,971	363,707
Roads Tolling Expenses	4,666	302,125
IGPWP Community Roads	677,037	1,120,658
Road User charges- commissions	209,859	183,918
Roads Fund Bond Costs	666,584	107,500
Bank charges and other expenses	3,211	4,335
TOTAL EXPENDITURE	**55,266,598**	**39,547,386**
(DEFICIT)/SURPLUS FOR THE YEAR	**(12,869,828)**	**(1,743,001)**

Statement of Financial Position (RF)

	2019 K'000	2018 K'000
ASSETS		
Receivables	16,808,344	12,601,471
Inventories15,814,829	18,920,497	
Cashand bank balances	1,607,907	4,673,039
TOTAL ASSETS	**34,231,080**	**36,195,007**
RESERVES AND LIABILITIES		
RESERVES		
Accumulated Surplus	4,982,472	17,852,300
NON-CURRENT LIABILITIES		
NBS Bank Bond	6,278,395	1,584,265
CURRENT LIABILITIES		
Payables 6,695,837	7,380,253	
Current Potion-Bond	418,560	-
Other Payables	12,389,575	7,091,963
Taxes Payable	3,466,241	2,286,226
TOTAL LIABILITIES	**22,551,653**	**16,758,442**
TOTAL RESERVES AND LIABILITIES	**34,231,080**	**36,195,007**

Financial Position Analysis

Liquidity

The current ratio measures the ability of a company to settle current liabilities through disposal of its current assets. Road Fund Administration has a current ratio of 1.5:1, a decrease to the performance in 2018 which was 2.2:1. Roads Fund has just enough sources of cash to pay its liabilities should they fall due. As a Fund, this is fairly a positive situation.

Roads Fund receivables for the year ending June 2019 were **K16.8 billion** as compared to **K12.6 billion** in the year 2018, representing an increase of 33.3%. The Roads Funds There were current liabilities amounting to **K22.6 billion** in the year 2019 as compared to **K16.8 billion** in 2018 representing an increase of 34.5%.

Audit Opinion

I reviewed and agreed with the basis for which the unqualified opinion of Roads Fund Administration was issued. In the opinion, the financial statements give a true and fair view of the financial position of Roads Fund. However, the entity will be categorized as a medium risk looking at the portfolio of projects that are still unpaid to date.

Weaknesses in Financial Controls and Operations

The audit of financial statements of Roads Fund and Roads Fund Administration for the financial year ended 30th June, 2019 was done by Deloitte (Audit firm) on behalf of the Auditor General using section 10 of the Public Audit Act No 6 of 2018. I hereby highlight some of the weaknesses in financial and internal controls as follows;

Lack of assessment of useful lives and residual values of property, plant and equipment

It was noted that the RFA did not make an assessment of useful lives and residual values of PPE at year end as required by *IAS 16 property, plant & Equipment*. The standard requires that at least at each financial year-end and, if expectation differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with *IAS 8 Accounting Policies, changes in Accounting Estimates and Errors*. The standard defines the residual value of an asset as an estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in a condition expected at the end of its useful life.

Useful life is defined by IAS 16 as:

- The period over which an asset is expected to be available for use by an entity; or
- The number of production or similar units expected to be obtained from the asset by an entity.

The useful lives and residual values therefore have an effect on the depreciation charged on assets. Non-compliance with IAS 16 requirements in respect of assessment of useful lives and residual values may lead to misstatement of depreciation charges.

MALAWI COMMUNICATIONS REGULATORY AUTHORITY (MACRA)

Background

The Malawi Communications Regulatory Authority (the "Authority") was established under the Malawi Communications Act, 1998. The general duties of the Authority are to ensure that, reliable and affordable communication services sufficient to meet demand are provided throughout Malawi. The Authority has the power to regulate telecommunications, broadcasting, the use of radio frequencies and the provision of postal services though out Malawi. The directors in office at the date of this report were as follows:

Table 8: Tenure and List of MACRA Directors

Reverend Alex Benson Maulana	Chairperson
Mr. Sheend Mwala	Member
Mr. Konrad Buckle	Member
Ms. Loyce Kantwela	Member
Mrs. Emily Banda Egolet	Member
Ms. Mphatso Gadama	Member
Secretary for Information	Ex official
Secretary to Treasury	Ex official
Solicitor General & Sec. for Justice	Ex official
Comptroller of Statutory Corporations	Co-opted member

Financial Performance Overview

Review of Operations

Statement of Comprehensive Income

	2019 K'000	**2018 K'000**
Revenue	17,542,461	18,120,577
Other income	205,360	99,187
Total Income	**17,747,821**	**18,219,764**
Operational Expenses		
Regulatory Expenses	1,899,884	1,949,382
Administrative expenses	4,707,799	3,790,361
Staff costs	2,730,385	2,247,907
Travel expenses	771,496	595,631
Depreciation	1,316,646	741,644
Special projects	1,250,572	1,395,964
Total Operating Expenses	**12,676,782**	**10,720,889**
Operating surplus	**5,071,039**	**7,498,875**
Finance income	410,557	501,906
Surplus for the year	5,481,597	8,000,781
Other comprehensive income/(loss)	-	-
Total comprehensive income for the year	**5,481,597**	**8,000,781**

Financial Performance Overview

MACRA recorded a decrease in its revenue on its operating activities with approximately **K0.5 billion** from **K17.748 billion** during the financial year ended 30th June 2019 compared to **K18.22 billion** for the year ended 30th June 2018, representing a decrease of 27%. MACRA incurred expenses in the year ended 30th June 2019 amounting to **K12.677 billion** resulting to an operating surplus of

K5.071 billion which was a decline in its operating surplus by 32% when compared with 2018 whose surplus was **K7.499 billion.**

Statement of Financial Position

	2019 K'000	2018 K'000
ASSETS		
Non-current asset		
Property and equipment	8,804,789	8,650,429
Intangible assets	588,358	859,451
	9,393,147	9,509,880
Current assets		
Inventories	17,253	44,287
Trade and other receivables	4,671,811	4,505,938
Amounts due from related parties	1,671,460	1,869,347
Cash and cash equivalents	4,065,245	3,389,387
	10,425,769	9,808,959
Total assets	**19,818,916**	**19,318,839**
FUNDS AND LIABILITIES		
Funds		
Capital fund	30,000	30,000
Revaluation reserve	223,082	223,082
Revenue fund	10,039,311	11,056,384
	10,292,393	11,309,465
LIABILITIES		
Non-current liabilities		
Deferred income	1,736,211	1,762,733
Current liabilities		
Trade and other payables	4,351,663	3,048,080
Amounts due to related parties	29,229	216,596
Deferred income	3,409,419	2,981,965
	7,790,312	6,246,640
Total liabilities	9,526,523	8,009,374
Total funds and liabilities	**19,818,916**	**19,318,839**

Liquidity

MACRA had a current ratio of 1.32: 1 in the year ended 30th June, 2019 reflecting a slight decrease compared to current ratio of 2018 which was 1.57: 1. MACRA being the only regulator in Malawi on communication is expected to have a better current ratio. The level of trade and other payables ought to be managed since it is forming over 50% of the current liabilities. A current ratio of almost 1:1 for a cash cow of Malawi is a demonstration weak financial policy and management.

Working capital management

MACRA cash flow statement shows a healthy cash balance of K4.065 billion in 2019 which has increased by 20% compared to K3.389 billion for 2018.

Audit Opinion

My audit opinion highlighted a significant issue on revaluation of assets which according to the financial statements of MACRA form almost 45% of the total assets. MACRA has been categorised as **medium risk.**

Weaknesses in Financial Controls and Operations

The audit of financial statements of the Malawi Communications Regulatory Authority for the financial year ended 30th June, 2019 was conducted by my office. I therefore, highlight some of the weaknesses in financial and internal controls as follows;

Long Outstanding Receivables: K2,549,766,849.08

Section 10.1.2 of Accounting and Stores Procedure manual states that the credit period for receivables shall not exceed 30 days from the date of service/goods delivery

An inspection of aged trial balance disclosed that receivables amounting to **K2,549,766,849.08** have been outstanding for a very long time and management has not yet provided evidence to the audit team relating to the effort made to collect the outstanding receivable in question. Table 2 below has the details:

Table 9: Long Outstanding Trade Receivable List

NAME OF DEBTOR	AMOUNT (K)	PERIOD
Malawi Broad Casting Cooperation	38,131,252.98	Over 90 days
Galaxy Radio	22,333,000.00	Over 90 days
Galaxy TV	32,717,167.00	Over 90 days
Joy Radio	21,440,992.00	Over 90 days
Joy TV	11,013,000.00	Over 90 days
Living Waters Church TV	11,108,552.00	Over 90 days
Living Waters Church Radio	11,656,509.10	Over 90 days

Malawi Television	10,923,908.00	Over 90 days
Celcom	374,438,090.00	Over 90 days
Globe Internet	519,501,267.50	Over 90 days
Lacel Private Limited	1,077,284,940.00	Over 90 days
Malawi Post Corporation	159,735,540.50	Over 90 days
Malawi Mobile Limited	35,853,380.00	Over 90 days
National Bus Company	14,950,000.00	Over 90 days
Star Time Media	208,679,250.00	Over 90 days
TOTAL	**2,549,766,849.08**	

Ineligible Expenditure: K40,220,040

Section 3 (ii) of the donation policy contained in the Board Charter states that members shall consider favourably any request for funds or equipment that will be used directly for the development of ICTs and be in support of MACRA's objectives and mandate under the Act.

In addition to the above policy, Board resolution number 25 made in November, 2019 on issues arising out of the 68th Meeting of the Board held on 19th July, 2019 stated that Donations made by MACRA should be restricted to ICT equipment.

An inspection of transaction listing disclosed that donations amounting to **K40,220,040.00** which were made to various institutions did not qualify as donations according to MACRA policy on donation hence the expenditure is ineligible.

Delay By MACRA in Repairing Faulty Equipment

A visit to telecentres disclosed that MACRA delays in repairing equipment from telecentres which have developed faults. This was evidenced by the absence of one of the computers at Mbenjere telecentre which was taken by MACRA technician for repair. As at the time of the audit the computer had not yet been repaired and returned to the telecentre.

Long Outstanding Receivables; K2,549,766,849.08

An inspection of aged trial balance disclosed that receivables to the tune of K2,549,766,849.08 have been outstanding for a long time and no evidence of effort was made to the auditors to appreciate the status of this matter

Poor Workmanship in Some Tele Centre infrastructures

A sample visit by the auditors revealed that some telecentres exhibited elements of poor workmanship. There were ceilings which were not properly fixed, cracks on the floors and wall and this was in Salma and Machinga.

Fuel Requisitions not Provided for Audit Review: K21,390,576

A review of records and transactions listing disclosed that management failed to produce evidence to the audit team that fuel worth K21,390,576 was supported by requisitions and accounted for

Background

The Malawi Regulatory Authority is a corporate body established under the Energy Regulatory Act No. 20 of 2004 of Malawi as the Energy Sector Wide Regulator. Its mandate is to regulate the energy sector in Malawi in a fair, transparent, efficient and cost effective manner for the benefit of the consumers and operators.

Table 11: List of MERA Directors

Directors	Designation
Rt. Rev. Dr J.P. Bvumbwe	Board Chairperson
Mr K. Msika	Vice Board Chairperson
Mrs M Chirwa	Member
Mr L. Nchembe	Member
Mrs M Mulele	Member
Patrick Matanda	Secretary of Energy
Hastings Chipongwe	Director of Energy
Dr C. Magalasi	MERA Chief Executive

Review of Operations

Statement of Comprehensive Income

	2019	**2018**
	K'000	**K'000**
Revenue	7,426,646	6,851,992
Sundry Income	78,305	1,708
Operating Expenses	(4,668,497)	(3,637,872)
Operating Surplus	2,836,454	3,215,828
Other non-operating gains/ (losses)	8,476	(10,805)
Surplus for the year	2,844,930	3,205,023

Financial Performance Overview

MERA recorded an increase in trading revenue from its operating activities amounting to K7.426 billion during the financial year ended June 2019 compared to K6.852 billion which was recorded year ended June 2018, representing a revenue increase of 9.5%. MERA incurred expenses in 2019 amounting to K4.668 billion resulting to a surplus of MK2.845 billion showing a reduction in surplus by 11% when compared with 2018 where a surplus of K3.205 billion was made. MERA had a profitability ratio of 37.9% in the year 2019 which actually was on the lower side when compared to 46.7% profitability ratio made in 2018.This is a sign that MERA's profits are in decline.

Statement of Financial Position

	2019	**2018**
	K'000	**K'000**
Assets		
Non-current Assets		
Property Plant and Equipment	7,014,981	3,307,217

Current Assets		
Inventories	16,258	11,498
Trade and other Receivables	31,787,400	22,746,375
Cash and Cash equivalents	26,218,195	20,365,359
Total Current Assets	58,021,853	43,123,232
Total Assets	**65,036,834**	**46,430,449**
Funds and Liabilities		
Capital fund	141,483	141,483
General Fund	10,763,841	8,361,764
	10,905,324	**8,503,247**
Liabilities		
Non-Current Liabilities		
Deferred Income	146,273	151,901
Restricted funds	18,777,947	15,643,284
	18,924,220	**15,795,185**
Current Liabilities		
Trade and other payables	35,207,290	22,132,017
Total Liabilities	54,131,510	37,927,202
Total Funds and Liabilities	**65,036,834**	**46,430,449**

Financial Performance Overview

Liquidity

For the year ended 30th June, 2019, MERA had a current ratio of 1.6:1 reflecting a decrease compared to current ratio of 2018 which was 1.9:1. However, as a regulator and cash-cow we expect the ratio to be higher than this. This situation can easily move MERA to insolvency if something unique happens.

Working capital management

Working capital management stipulate that receivable days should be shorter than payable days, this is to make sure that MERA has cash flow before making any payment.

MERA cash flow statement shows a cash balance of K26.218 million in 2019 which has increased by 29% compared to K20.3659 million for 2018

Audit Opinion

I reviewed and agreed with the basis for which the opinion of MERA was issued. Being a clean opinion I categorized MERA as a medium risk and therefore, will be subjected to only continuous key subject area reviews.

Weaknesses in Financial Controls and Operations

The audit of financial statements of the MERA for the financial year ended 30 June, 2019 was done by AMG Global (Audit firm) on behalf of the Auditor General using section 10 of the Public Audit Act Amendment No 6 of 2018. We highlight some of the weaknesses in financial and internal controls as follows;

Lack of title deed for the Authority's land

During an audit process management failed to provide title deed for land of the office complex under construction which was in progress showing that MERA had no ownership of the land where the office was being constructed.

MALAWI REVENUE AUTHORITY (MRA): CORPORATE ACCOUNTS

Background

MRA is wholly owned by the Government of Malawi under the Malawi Revenue Authority Act, 1998. The mandate of MRA is to act as an agent of Government of Malawi in assessment, collection and receipt of specific tax revenue which is determined by Government of Malawi through Parliament. MRA has its head office in Msonkho House, Blantyre and is headed by Commissioner General. MRA has three regional administrative offices headed by regional managers.

The Authority's operations are overseen by Board of Directors that are appointed by the Government. The Directors are responsible for the affairs of the Authority under the provisions of the Authority's Act amongst them is the appointment of Commissioner General and the Public Finance Management Act (2003). The Table 12 below shows names of the Directors, their designation and period of service.

Table 12: Tenure and List of MRA Directors

Name	Designation	Period of Service
Dr. R. Harawa	Chairperson	From 29 January,2019
Mr. Eric Chapola	Member	Up to 28 January,2019
Mrs. L. Magombo-Manda	Member	Served throughout the year
Mr. M. Howahowa	Member	Served throughout the year
Mr. C. Chayekha	Member	Served throughout the year
Governor, RBM	Ex-Officio Member	Served throughout the year
Accountant General	Ex-Officio Member	Served throughout the year
Secretary to the Treasury	Ex-Officio Member	Served throughout the year
Secretary for Trade	Ex-Officio Member	Served throughout the year
Mr. F. Tambulasi	Board Secretary	Served throughout the year

Main Activities

Collecting revenue on behalf of Government in of taxes like;

- VAT
- PAYE
- Exercise duty
- Import duty
- Corporate tax

Review of Operations

MRA was faced with macro-economic challenges during this financial year which negatively affected tax revenue collection. Authority collected K958.7 billion against a revised target of K969.1 billion. Registering a collection deficit of 1.1% (K10.4 billion). However, this report only highlights MRA as a corporate entity. As a corporate entity, the funding or income of MRA is derived from the Agency fees which is 3% of the total collected revenue.

During the year, the Authority continued to seek out and implement new initiatives to make compliance easier and to reduce the incidences of non-compliance and evasion across all tax types.

Statement of Comprehensive Income (MRA)

	2019 **K'000**	**2018** **K'000**
REVENUE		
Agency fees	28,686,971	25,741,072
Other revenue	4,314,929	4,005,563
Total Income	**33,001,900**	**29,746,635**

STAFF COSTS		
Salaries	(11,545,565)	(10,432,234)
Other staff costs	(3,399,487)	(3,078,726)
Pension Contribution	(1,057,933)	(1,072,475)
Total staff costs	**(16,002,985)**	**(14,583,435)**
Administrative and operating expenses	**(12,398,874)**	**(11,087,968)**
Depreciation and amortization	(1,461,006)	(1,294,227)
Office rental	(384,993)	(322,792)
Administrative and operating expenses	**(14,244,873)**	**(12,704,987)**
Total expenditure	**(30,247,858)**	**(27,288,422)**
Surplus before finance income and expenses	**2,754,042**	**2,458,213**
Finance income	212,970	306,626
Finance expense	(258,100)	(246,779)
Net finance (expenses)/income	**(45,130)**	**59,847**
Surplus for the year	**2,708,912**	**2,518,060**
Other comprehensive income		
Revaluation surplus	4630910	-
Total comprehensive income for the year	**7,339,822**	**2,518,060**

Financial Performance Overview

For the year ended June 30, 2019 operating surplus for Malawi Revenue Authority as a corporate entity increased by 8%, from K2.5 billion, in 2018 to K2.7 billion.

The performance was largely based on account of Agency fees which is based on revenue collection levied at 3%. Smaller contribution came from other revenue streams like processing fees, Destination inspection fees etc.

Operating expenses grew by 10%, from previous year, to K30.2 billion from K27.2 billion in 2018. This was as a result of gentle increase in total expenditure from last financial year.

The Authority registered a total comprehensive income of K7.3 billion compared to K2.5 billion in 2018. This is attributed to Revaluation surplus of K4.6 billion.

Statement of Financial Position (MRA)

	2019 K'000	**2018 K'000**
ASSETS		
NON-CURRENTS ASSETS		
Property, plant and equipment	27,547,805	21,267,675
Intangible assets	77,294	86,639
TOTAL NON-CURRENT ASSETS	**27,625,099**	**21,354,314**

CURRENT ASSETS		
Inventories	191,945	175,425
Amount due from Malawi Government	2,364,513	2,438,947
Other receivables and prepayments	1,700,400	1,599,352
Cash and short-term deposits	1,036,385	4,378,196
Non-current assets held for sale	3,147	-
TOTAL CURRENT ASSETS	**5,296,390**	**8,591,920**
TOTAL ASSETS	**32,921,489**	**29,946,234**
RESERVES AND LIABILITIES		
RESERVES		
Government contribution	363,216	363,216
Revaluation reserve	10,838,343	6,213,575
General reserves	10,082,595	7,367,539
TOTAL RESERVES	**21,284,154**	**13,944,330**
NON CURRENT LIABILITIES		
Borrowings	1,870,421	1,105,769
Deferred income-Malawi Government	3,709,676	3,807,950
TOTAL NON-CURRENT LIABILITIES	**5,580,097**	**4,913,719**
CURRENT LIABILITIES		
Borrowings	552,829	850,889
Trade and other payables	4,043,611	4,218,652
Provisions 1,380,418	823,946	
Amount due to Malawi Government	80,380	5,194,698
TOTAL CURRENT LIABILITIES	**6,057,238**	**11,088,185**
TOTAL LIABILITIES	**11,637,335**	**16,001,904**
TOTAL RESERVES AND LIABILITIES	**32,921,489**	**29,946,234**

Financial Position Analysis

Liquidity

MRA current ratio is 0.9:1, for the year ending 30th June, 2019 as compared to a current ratio of 0.8 :1 in the year ending 30th June 2018. This means that MRA had 90 tambala as ready sources of cash to pay every K1 worth of immediate liabilities. Since its source of income is driven by revenue collection, this current ratio does not reflect sound financial management (Even though the current ratio is close to 1) since the entity is seen to overcommit itself by 30% if we are to look at the immediate demands. There is need to look at the build-up and cause of such a situation especially on current liabilities or else increase the revenue base so that levy too should increase which ultimately increases cash

Working Capital management

MRA cash-flow was drastically wiped out by 77% from K4.3 billion in 2019 to K1.0 billion. During the year, the Authority secured an interest free loan from Ministry of Finance (Treasury)amounting to K600 million repayable over a period of 30 months effective April 2019 on top of previous loan of K1.4billion from FDH Bank Limited.

Possibly, due to this sharp decline in cash-flow MRA failed to settle its normal trade payables which stood at almost constant figure of K1.2 billion in 2019 and K1.3billion in 2018. This could have an impact on the relationship with its supplies which if not handled properly, MRA would likely be denied future supplies or taken to court.

MRA liquidity problems is compounded by its inability to service liabilities with its employees like gratuity, accrued leave pay, accrued staff bonus and leave grant.

Audit Opinion

I reviewed and agreed with the basis for which the opinion of MRA was issued. Though the audit opinion is clean, however, I have categorized MRA as medium risk due to external factors (revenue inflow determinants) and therefore, its operations will be monitored closely.

Weaknesses in Financial Controls and Operations

The audit of financial statements of the Malawi Revenue Authority for the financial year ended 30 June, 2019 was done by Deloitte (Audit firm) on behalf of the Auditor General using section 10 of the Public Audit Act Amendment No 6 of 2018. We highlight some of the weaknesses in financial and internal controls as follows;

Lack of title deeds for the Authority's land

We noted that 95% of the land which has been recorded as property by the Authority, has no title documents evidencing that the land is legally owned by the Authority. Out of the 9 items of property selected for verification, the Authority had title deeds for only Msonkho House and Chileka properties. Below are some of the properties with no title deeds.

Asset	**Location**
Ginnery Corner Warehouse	Blantyre
Namiwawa Guest House	Blantyre
Lilongwe Port	Lilongwe
Songwe port	Karonga
Mchinji Mwami CE	Mchinj
Chitipa Port	Chitipa
Salima office	Salima

Long outstanding reconciliation items on bank reconciliations

We noted that the Authority had several unusual reconciling items on bank reconciliations, including items that had been outstanding for more than six months as at 30th June, 2019. The items include receipts on the statement not booked in the cashbook, receipts not credited on statement and wrong postings to the account. A total of K578 million receipts on statement not booked in the cashbook and K62 million of cash receipts not credited on statement as of June 2019 were noted as still outstanding on the bank reconciliations as at 30th June, 2019.

Lack of supporting documents

We noted that the Authority did not have any formal documentation showing nature, purpose and plan for one K25 million payment.

NATIONAL FOOD RESERVE AGENCY (NFRA)

Background

The National Food Reserve Agency (NFRA) was created in June, 1999 by a Trust Deed. The Trust Deed was amended by a resolution dated 20th October, 2000. The Agency is 100% owned by Malawi Government. It reports to the Malawi Government through the Ministry of Agriculture, Irrigation and Water Development on operational matters and to the Department of Statutory Corporation on administrative matter. The Agency is 100% owned by the Malawi Government

The main business of the National Food Reserve Agency (The Agency or NFRA) consists of management and maintenance of strategic grain reserves by holding ready resources in form of physical grain stocks and funds necessary for use through normal marketing channels to help reduce the impact of failure of the private sector to respond to market signals and /or make adequate provision to satisfy national food requirements.

TRUSTEES

There was no appointment of new directors from 1st March, 2019 to 30th June, 2019. The following trustees appointed in terms of the Trustees Incorporation Act served office during the year:

Table 13: Tenure and list of NFRA Directors

Name	**Designation**	**Tenure**
Pastor Frackson Kuyama	Chairperson	Up to 28 February 2019
Associate Professor Vernon H. Kabambe	Trustee	Up to 28 February 2019
Mr. Grey S. V. K. Nyandule Phiri	Ex-Officio	Up to 28 February 2019
Mrs. Eleanor Ziwawo	Trustee	Up to 28 February 2019
Pastor Dennis Matekenya	Trustee	Up to 28 February 2019
Mr. Remmie Mussa	Trustee	Up to 28 February 2019
Mr. Charles Jika	Trustee	Up to 28 February 2019
Mr. Gedion Kalumbu	Trustee	Up to 28 February 2019
Reverend Otherwise Mapute	Trustee	Up to 28 February 2019
Mrs. Lonnie Mphasa	Trustee	Up to 28 February 2019
Mr. Jack Mavutula	Trustee	Up to 28 February 2019
Mr. Stuart Ligomeka	Ex-Officio	Up to 28 February 2019
Mr. Ben Botolo	Ex-Officio	Up to 28 February 2019

Statement of Comprehensive Income (NFRA)

	2019	**2018**
	K'000	**K'000**
Revenue		
Government subvention	601,689	625,984
Capital grants released	132,072	134,272
Donation income	500,000	8,041,574
Investment income	173,673	118,522
Other income	480,553	473,334
Total income	**1,887,987**	**9,393,686**
Operating Expenditure		

Grain expenses	(77,353)	(49,004)
Administrative expenses	(2,062,223)	(1,581,847)
Stock write up (down)	482,407	(1,427,084)
Total operating expenditure	**(1,657,169)**	**(3,057,935)**
Surplus for the year	**230,818**	**6,335,751**

Financial Performance Overview

During the financial year ended 30th June, 2019, income generated by NFRA from its normal operating activities totaled K1.9 million compared to K9.4 million that was recorded in the year ended 30 June 2018. Thus, revenue decreased by K7.5 billion in the year ended 30th June 2019 representing a decrease in revenue of 79.9%. The reason for the huge difference was that for the year ended 30th June 2018 there were donations of income of K8 billion from Government to be used for maize storage space whilst in the year 2019 this budget line only got a donation income of K0.5 billion. At the end of the financial year of 2018, the amount was still unused as seen by the huge surplus of K6.3 billion. Suffice to say that total operating expenditure during the year under review was K1.7 billion compared to K3.1 billion for 2017/2018 financial year.

Statement of Financial Position (NRFA)

	2019	2018
	K'000	**K'000**
ASSETS		
NON-CURRENTS ASSETS		
Property, plant and equipment	2,710,927	2,827,265
Staff loans	75,596	26,775
TOTAL NON-CURRENT ASSETS	**2,786,523**	**2,854,040**
CURRENT ASSETS		
Inventories	5,182,093	17,332,247
Inventories on loan	14,158,148	1,521,860
Trade and other receivable	244,964	253,274
Bank balances and cash	2,491,975	5,026,417
TOTAL CURRENT ASSETS	**22,077,180**	**24,133,798**
TOTAL ASSETS	**24,863,703**	**26,987,838**

RESERVES AND LIABILITIES		
Reserves	663,705	663,705
Capital fund	19,315,004	18,832,597
Grain reserve	(2,099,978)	(1,845,801)
Deficit in reserves	17,878,731	17,650,501
NON- CURRENT LIABILITIES		
Capital grants	3,376,543	3,508,615
TOTAL NON-CURRENT LIABILITIES	**3,376,543**	**3,508,615**
CURRENT LIABILITIES		
Bank overdraft	23,896	30,834
Trade and other payables	3,519,728	5,740,205
Provisions	64,805	75,683
TOTAL CURRENT LIABILITIES	**3,608,429**	**5,828,722**
TOTAL RESERVES AND LIABILITIES	**24,863,,703**	**26,987,838**

Financial Position Analysis

Liquidity

NFRA has a current ratio of 6.12:1, an improvement to the performance in 2018 which was 4.14:1. The main driver for this ratio to go up is the huge quantities of inventory in the two financial years (2018: K17.3 billion and 2019: K19.3 billion). However, overtrading or overstocking of commodities/inventories (maize) over a very long time accrues storage costs and if not properly managed even damage of the commodity. This is an area which requires review so that commodities are managed to allowable and manageable stock levels.

Revenue Management

As at the year end the National Food Rese4rve Agency (NFRA) cash position increased as compared to the previous financial year. As at the end of the 2018-2019 financial year, National Food Reserve Agency (NFRA) had a cash and cash equivalents balance amounting to **K1.9 Million**. For the 2017-2018 financial year National Food Reserve Agency (NFRA) had cash and cash equivalents of **K9.4 million** representing a decrease of **79.8 %.**

Liabilities

National Food Reserve Agency (NFRA) total liabilities is **K6.98 billion** against total assets of **K24.9 billion**.

Audit Opinion

I reviewed and agreed with the basis for the issued opinion of National Food Reserve Agency (NFRA). The two (2) Key Audit Matters raised by the audit are critical which are:- **1. existence and valuation of inventory and 2. Impairment of Silos**. On that note, the entity is still rated a **medium risk** on these matters since they form a greater influence to the mandate and existence of NFRA.

Weaknesses in Financial Controls and Operations

Late remittance of Withholding tax: K40.8 million

Regulation 6 (1) of Taxation (Withholding tax) (information, deduction and payment) regulations states that a person who has been deducted from a payment to any other person an amount representing withholding tax shall remit such amount to the Commissioner within fourteen days from the end of the month in which such deduction was made. However, it was noted that withholding tax deducted from suppliers amounting to K40.8 million for the year ended 30th June, 2019 and K202.5 million from the prior year was not remitted to Malawi Revenue Authority (MRA) as at the date of audit inspection.

According to the Taxation Act, failure to remit the tax deducted within specified time shall render the person/entity who fails to do so personally liable to an additional sum of 20% of the withholding tax due. The penalty must be paid together with the WHT due.

Late remittance of Pay As You Earn (PAYE) Tax: K59.6 million

The Taxation Act Rule number 10 (1) of the income tax (PAYE) (Deduction and Payment) Rules under section 102 stipulates that, every employer must shall pay to the Commissioner the amount of any income tax deducted under Rule 3 (1) within fourteen days of the end of the month in which it was deducted.

It was noted that PAYE for the months of July, 2018 to January, 2019 amounting to K59.6 was remitted late and PAYE for the months of March, 2019 to June, 2019 amounting to K32.9 million had not been remitted to Malawi Revenue Authority (MRA) as at the time of audit in September, 2019. As stipulated under Rule number 10 (2) of the Income Tax (PAYE) (Deduction and Payment) Rules under section 102 of the Taxation Act, failure to remit PAYE tax on time will result in penalties as follows:

Any employer who fails to comply with sub rule (1) shall pay to the Commissioner;

An additional sum of fifteen percent (15%) of the amount of the tax which he shall have failed to so pay

A further additional sum of five percent (5%) per month or part thereof for the period during which the amount of the tax remains unpaid, and such additional amounts together with the amount of the tax shall be summarily recovered by the Commissioner in his own name provided that the Commissioner may reduce the amount of such additional sums if a satisfactory explanation of the reasons for the delay are made.

It was noted that the Agency has not yet been charged any penalties on these outstanding PAYE balances.

Non- Remittance of Fringe Benefits Tax: - K40.8 million

Under Regulation 6 (1) of Taxation (Fringe Benefits Tax) (information and payment) regulations, the sums due as Fringe Benefits Tax shall be paid to the Commissioner in quarterly instalments not later than fourteen days after the end of each quarter.

It was noted that FBT for all the quarters in the period under review amounting to K15.9 million had not been remitted as at 15th August, 2019.

The Taxation Act specifically stipulates that failure to pay FBT, the employer shall, in addition to the amount due, be liable to a 20% penalty of the tax due. This could result in financial loss to the agency.

Late Remittance of Pension contributions

Section 61 (1) of the Pensions Act states that an employer is under obligation to make employer contributions in respect of a member, the employer shall pay to a trustee, or as trustee directs, the amount of these contributions not later than 14 days after the end of the month in which the liability to make contribution arose.

It was noted that pension contributions for the months of July – September and November 2018 – February 2019 were remitted late and pension contributions for the months of October, 2018, March 2019, April 2019, May, 2019 and June, 2019 were not remitted at all.

As stipulated in the Section 9 (3) of the Pensions Act, any employer who fails to comply with this section, shall be liable to administrative penalties under the Financial Services Act, 2010.

Section75 (1) of the Financial Services Act. Stipulates that the monetary penalty shall be determined in the Registrars directives or prescribed by the Minister.

Section75 (3) states that; `a person who has been imposed and fails or refuses to comply with the administrative penalty commits an offence and shall, on conviction, be liable to a fine of five million kwacha (K5,000,000.00) and to imprisonment for four years.

Long Outstanding Receivable balance: K38 Million

Under the agreement, in a letter dated 29th July, 2016 and signed by the Chief Secretary to the Government, the Agency was to pay for the salaries and benefits of the individual with the expectation that these are to be recovered from the Government.

The Agency is yet to recover from the Government the money that NFRA paid to the Director of Security. The amount paid to the individual and outstanding as at 30th June, 2019 was K38.0 million (2018: K19 million). The balance represents amounts that the Agency paid to the individual but it has not been reimbursed by the Government. As a result, the Agency may be losing the time value of money to the long outstanding receivable amount.

Lack of Proper System of determining Inventory Quantities in the Silos

The Agency uses dipping method which involves application of mathematical formulae when determining the inventory levels in the silos. This method has a margin of error which leads to differences between its results and recorded volumes. The Agency had put in place a stock system to determine the quantity of stock in the silos in the prior years. The system had some technical faults and failed to give accurate results and was abandoned. The Agency is yet to rectify the faults or replace the system.

Failure to have a proper system in place may lead to wrong inventory tonnage being recorded in the Agency`s books thereby misstating the financial statements.

Lack of Policy on Provision for moisture loss in Maize inventories

Maize grain loses moisture as it is being stored in silos or warehouses. This loss in moisture results in loss of weight as time goes. The Agency, however, does not have any policy to make a provision for loss in weight resulting from the loss in moisture of maize.

Failure to make this provision may result in material misstatements of the maize inventory balance which may result into misstatement of the financial statements.

Late Signing of Lease Agreements

During the review of the rental contracts between NFRA and its customers, it was noted that several contracts for the year (July 2018 – June 2019) were only signed in December, 2018. This indicates that there was no written and signed agreement in place between the Agency and its tenants between July, and December, 2018.

The irregularities were noted in respect of the following customers:

i. Shreeji;

ii. Limbada;

iii. Kulima;

iv. Alford; and

v. KU Distributors

The lack of a signed agreement ahead of the lease period renders the contract unenforceable during the said period and may give rise to problems should matters in this period be up for legal dispute.

Use of Different Purchase Prices

It was noted that different prices were used in recording maize receipts from ADMARC (37,637 metric tons at K250/kg) and Auction Holdings Commodities exchange (33,021 metric tons at K156/kg) in the same period.

Use of different prices in recording the inventory may result into over/understatement of inventory thereby misstating the financial statements. The use of different prices may also result into loss of economic resources for the Agency as it would be buying maize at higher price when there is maize sold at a lower price.

Utilization of Funds Intended for the Purchase of Strategic Grain Reserve (SGR) Maize for operational activities

It was noted that the Agency utilized funds amounting to K357 million meant for the purchase of strategic grain reserve maize for operational activities other than the intended purpose. The Agency received K3 billion from Malawi Government to be used to replenish SGR maize. As at 30th June, 2019, the Agency had in the bank account K2.48 billion while unutilized funds balance out of K3.0 billion was K2.84 billion.

Subsequently, NFRA sought an approval from Malawi Government to use some funds from K3.0 billion for maize storage space. The government approved the use of funds for only procurement of maize and maize storage space procured in the year. The letter from the Malawi Government stated that NFRA would use that funds only for procurement of maize and payment of maize storage space procured in the year ended 30th June, 2019 and not for other operational activities. It was also noted that NFRA had also received a donation of K500.0 million in the year from Malawi Government to be used for maize storage space and extra K357.0 million was utilized from K3.0 billion, NFRA only incurred K418 million for maize storage space in the year.

Failure to utilize these funds to replenish the SGR maize and maize storage space for the year may affect the Agency in its operation and management of the SGR.

PUBLIC PRIVATE PARTNERSHIP COMMISSION

Background

The Public Partnership Commission was established as an agency of the Government to facilitate analysis, selection, development and delivery of public infrastructure and services where private sector participation through Public Private Partnership Act, Cap .46:07 is envisaged. Apart from being the lead entity in the procurement phase of The Public Private Partnership life cycle, the commission is there to support various contracting authorities in undertaking detailed feasibility analysis for purposes of establishing technical, legal, economic and commercial viability. The feasibility analysis will typically involve risk analysis and identification in order to ascertain affordability and delivery of value for money. The Public Private Partnership Commission started its operations on 1st July 2012.

The company operations are overseen by Board of Directors that are appointed by the Government. The Directors are responsible for the affairs of the organization under the and services where private sector participation through Public Private Partnership Act, Cap .46:07

The following served as commissioners during the year covered by these financial statements

Table 14: Tenure and List of Directors for PPPC

Name	*Designation*	*Period*
Mr L. Gama	Chairman	Throughout the year
Mr K. Msonda	Member	Throughout the year
Ms. R.Mkandawire	Member	Throughout the year
Mr F. Chaganya	Member	Throughout the year
Mr E. Bodole	Member	Throughout the year
Solicitor General & Secretary for Justice	Member	Up to 11 March 2019
Secretary to the Treasury	Member	Throughout the year
Secretary for EP & D	Member	Throughout the year
Secretary for Industry & Trade	Member	Throughout the year

Main Activities

The Public Private Partnership Commission facilitates analysis, selection, development and delivery of public infrastructure.

The Commission also supports various contracting authorities in undertaking detailed feasibility analysis.

Financial Performance Overview

During the financial year ended 30th June, 2019, the commission's total income increased by K178 million from the last financial year (representing a 21%), this increase is mainly attributed to an increase in Government funding which increased by almost the same amount of K177 million. This is a reflection that the project survives 100% from Government as depicted by the two financial years. Such being the case, there is need to have a clear and formal commitment from Government if the survival trend and base remain as such.

Statement Comprehensive Income

	2019 K'000	2018 K'000
REVENUE		
Government funding	921,623	744,114
Release of capital funds	76,817	67,838
Total Operating Revenue	**998,440**	**811,952**
Other income		
Sundry income	3,218	1,996
Release of capital grants on furniture & equipment	3,624	13,147
Profit on sale of property	-	301
Total other income	**6,842**	**15,444**
Total income	**1,005,282**	**827,396**
EXPENSES		
Privatisation expenses	18,415	5,191
Staff expenses	510,220	420,395
Operating expenses	477,482	402,750
TOTAL EXPENSES	**1,006,117**	**828,336**
Deficit For The Year Before Finance Income	**(835)**	**(940)**
Finance income	**1,149**	**1,041**
SURPLUS FOR THE YEAR	**314**	**101**

PPPC Statement of Financial Position

ASSETS		
NON-CURRENTS ASSETS		
Property, plant and equipment	308,106	301,962
Future employees benefit asset	694	708
Receivables	9,580	6,064
Total Non-Current assets	318,380	308,734
CURRENT ASSETS		
Future employees benefit asset	679	1,474
Receivables	61,614	37,542
Investments	1,035,275	1,223,887
Cash and bank balances	227,637	314,698
Total current assets	**1,325,205**	**1,577,601**
TOTAL ASSETS	**1,643,585**	**1,886,335**

FUNDS AND LIABILITIES		
Capital funds	307,724	301,580
Accumulated funds	49,069	48,755
Total funds	**356,793**	**350,335**
NON CURRENT LIABILITIES		
Privatisation Designated Funds	516,217	1,289,550
CURRENT LIABILITIES		
Payables	15,006	25,099
Accruals	83,911	40,923
Amounts due to Government of Malawi	671,658	180,428
Total current liabilities	**770,575**	**246,450**
TOTAL FUNDS AND LIABILITIES	**1,643,585**	**1,886,335**

Financial Position Analysis

Liquidity

For the year ended 30th June, 2019, PPPC has a current ratio of 1.7:1, a sharp decline in the ability to settle liabilities compared to 2018 which was 6.4:1. This means that in 2019, PPC has K1.70 as ready sources of cash to pay every K1 worth of immediate liabilities.

Working Capital Management

PPPC receivables increased by K24 million, representing 64 per cent increase from previous year. However, Payables for the Commission has decreased by K40 million representing 40 % decrease. The commission has maintained the positive cash balance of K227million although it has decreased by 28%.

Audit Opinion

I reviewed and agreed with the basis for which the opinion of PPPC was issued. Being a clean audit opinion, I have categorized PPPC as medium risk and therefore, its operations will be monitored whenever necessary.

Some of the key management operational challenges are as follows:

Weaknesses in Financial Controls and Operations

Designated Fund Account without Supporting Document

We noted that the commission did not have supporting documents attached to the journals posted for funds transfers into and out of designated fund account. Funds transferred into the account are driven by expected expenditure and available proceeds from privatisation projects.

The decision as to how much should be transferred into or out of the designated fund is undertaken by either the Director of Finance and Administration (DOFA) or the Chief Executive Officer (CEO). However, there is no proper documentation supporting such decisions attached to the journal.

PUBLIC PRIVATE PARTNERSHIP COMMISSION (PPC) – Digital Malawi Project.

Ownership of assets

We noted the project purchased 7 (seven) vehicles during the year in review. In assessing the organizations control over the purchased vehicles, we noted that only four (4) of the vehicles were registered under PPC –Digital Malawi Project with the other three (3) vehicles registered under the Government of Malawi (GoM) through the Ministry of Information and Communication Technology (MICT).

Below are details of the vehicles registered under MICT with a total value of US$178,951 {Approx.. K129 Million}.

Ford Ranger (MG 902 AL)

Ford Ranger (MG 903 AL)

Ford Ranger (MG 904 AL)

We could not reasonably ascertain that the project assets registered under Government fall in the control of DGMAP to monitor compliance with International Development Association (IDA) requirements. Based on IDA Project Appraisal Document No. PAD2285., DIGMAP is expected to use project funds efficiently for the intended purposes.

Handling of cash

We noted that the project personnel carry cash (in excess of K1 Million) for activities taking place in locations out of the city Blantyre. The project maintains its operating bank account with My Bucks Limited (Formerly New Finance Bank Limited) which is not widely available in many districts. DigMap is consequently obliged to hold cash in bulk for conference expenses and payment of subsistence allowances.

We further noted that DigMap has not insured the risk of cash theft.

ROADS AUTHORITY (RA)

Background

The Malawi Roads Authority (RA) is a quasi-government body which was established by an Act of Parliament in year 2006 with a mandate to ensure that public roads are maintained, rehabilitated at all times. The network is made up of Main Roads, Secondary Roads, Tertiary Roads ending with trucks and trails on the lowest level.

In Malawi, the National Road Network is under the Ministry of Transport and Public Infrastructure. The Minister has however delegated the duty of looking after the various classes of roads to various road agencies and the RA looks after the Main Secondary and Tertiary network throughout the country.

To better manage the network and respond to emergencies in good time, RA has sub-divided the network along the Administrative Regions of the country and established an office to look after it. Regional Office North looks after all the network in the North of Malawi. Similarly, the Central and Southern Regional Offices look after the network in their respective Regions while the Head office which is located centrally in Lilongwe deals with policy and strategy.

The Roads Authority (RA) is one of the two organizations (the other is the Road Fund Administration (RFA)) which was born out of the separation of functions of the then National Roads Authority (NRA). Under this setup, the Minister of Transport and Public Works represents Government as the ultimate owner of the national road network.

The Authority's operations are overseen by the Board of Directors that are appointed by the Government. The Directors are responsible for the affairs of the Authority under the provisions of the Authority's Act amongst them is the appointment of Commissioner General and the Public Finance Management Act (2003). The Table below shows names of the Directors, their designation and period of service.

Table 15: Tenure and list of RA Directors

Name	*Designation*	*Period of Service*
Hon. Brown Mpinganjira	Chairperson	Served throughout the year
Mr. Moses Chauluka	Vice- Chairpeson	Served throughout the year
Mrs. Chrissy Flao	Member	Served throughout the year
Senior Chief Tengani	Member	Served throughout the year
Mrs. Ellen C. Nyasulu	Member	Served throughout the year
Mr. Fergus Gondwe	Member	Served throughout the year
Secretary for the TPW	Ex-Officio Member	Served throughout the year
Secretary for the LGRD	Ex-Officio Member	Served throughout the year

Main Activities

(i) Monitoring road infrastructure network through collection and analysis of road network inventory, condition and traffic data;

(ii) Planning and implementation of road infrastructure studies and engineering designs;

(iii) Co-coordinating and developing of road infrastructure network development and maintenance plans (short, medium and long term);

(iv) Construction of new roads

(v) Periodic road maintenance and rehabilitation programmes

(vi) upgrading of unpaved roads to paved standard

(vii) routine and periodic maintenance,

(viii) concrete decking of bridges,

(ix) grading and reshaping,

(x) vegetation control along the roads

(xi) emergency works and

(xii) provision of associated supervision services.

Review of Operations

RA is faced with excessive interest payments charged by contractors of about K7.1 billion, money that could have otherwise served in other areas.

RA has a number of roads projects that are failing to take off as evidenced by a constant K10billion mobilization advances for two years, thus, 2019 and 2018.

ROADS AUTHORITY Income Statement

	2019 K'000	**2018 K'000**
INCOME		
Development programmes	98,370,284	67,461,742
Recurrent programmes	34,109,301	23,026,670
Operating income	4,393,830	3,310,801
Total Income	136,873,415	93,799,213
EXPENDITURE		
Development programmes	98,370,285	67,461,742
Recurrent programmes	34,113,316	23,032,790
Operating income	2,713,487	2,027,604
Administration expenses	1,475,592	1,227,109
Total expenditure	**136,672,680**	**93,749,245**
Surplus for the year	**200,736**	**49,968**
Other Comprehensive income		
Capital grants received	316630	–
Capital grants amortization	(59,318)	(22,069)
Revaluation surplus	395,935	142,565
Total other comprehensive income	**653,247**	**120,496**
Total comprehensive income	**853,983**	**170,464**

Financial Performance Overview

For the year ended June 30, 2019 Roads Authority registered the following financial performance; operating surplus for the year increased by 301%, to K200.7 million from K49.9 million, in 2018.

This performance was largely based on account of large grant the authority received from Government of Malawi and its development partners. The rest came from levy which is collected by Roads Funds Authority. RA had an equal movement growth of 45% income and expenditure from 30th June, 2018 to 30th June, 2019.

However, if interest claim of K7.2 billion actualize during the year, then RA would register a loss of K7.1 billion in 2019. Comparatively, in 2018 the surplus would have been wiped out to K5.2 billion.

Total expenses grew by 45%, from previous year, to K136.6 billion from K93.7 billion in 2018. This was as a result of increase in expenditure towards rehabilitation and periodic maintenance of roads recurrent programme and construction and upgrading of roads from Development programme from last financial year.

The Board registered a total comprehensive income of K853.9 million compared to K170.4 million in 2018. This is attributed to revaluation surplus and capital grant.

Statement of Financial Position

	2019 K'000	**2018 K'000**
ASSETS		
NON-CURRENTS ASSETS		
Property, plant and equipment	2,499,932	1,762,138
Total non-current assets	2,499,932	1,762,138
CURRENT ASSETS		
Inventories	54,657	88,921
Receivables	101,252,520	68,665,353
Cash and cash equivalent	230,480	371,142
Total current assets	**101,537,657**	**69,125,416**
TOTAL ASSETS	**104,037,589**	**70,887,554**

RESERVES AND LIABILITIES		
RESERVES		
General fund	910,877	710,141
Capital fund	351,631	94,319
Revaluation reserve	1,117,713	721,778
Total reserves	**2,380,221**	**1,526,238**
CURRENT LIABILITIES		
Bank overdraft	4,286	79,745
Deferred income	11,070,410	12,230,377
Payables	10,312,981	7,783,168
Development projects payables (GoM)	80,231,134	49,242,922
Provisions	38,557	25,104
	101,657,368	**69,361,316**
TOTAL RESERVE AND LIABILITIES	**104,037,589**	**70,887,554**

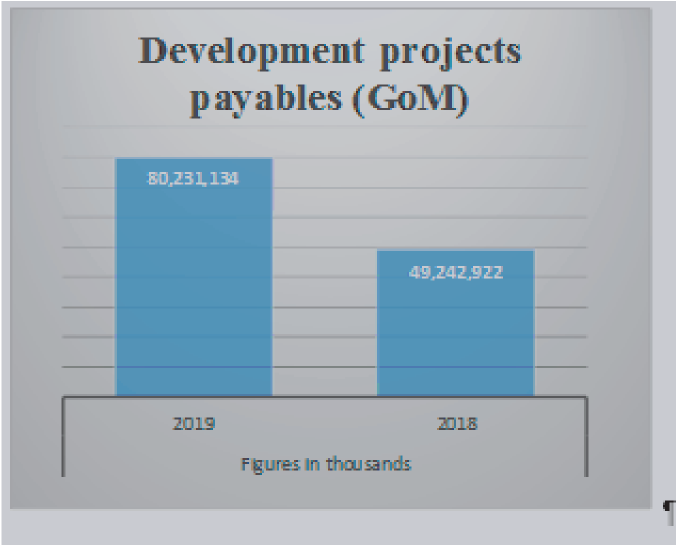
Financial Position Analysis

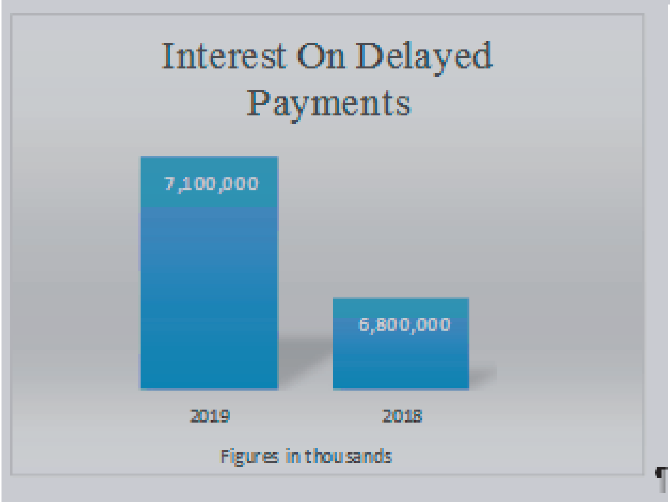
Liquidity

The current ratio measures the ability of a company to settle current liabilities through disposal of its current assets. RA maintained a current ratio of 1:1, for two years running 30th June, 2018 and 30th June,2019, RA had K1 tambala as ready sources of cash to pay every K1 worth of immediate liabilities.

Working capital management

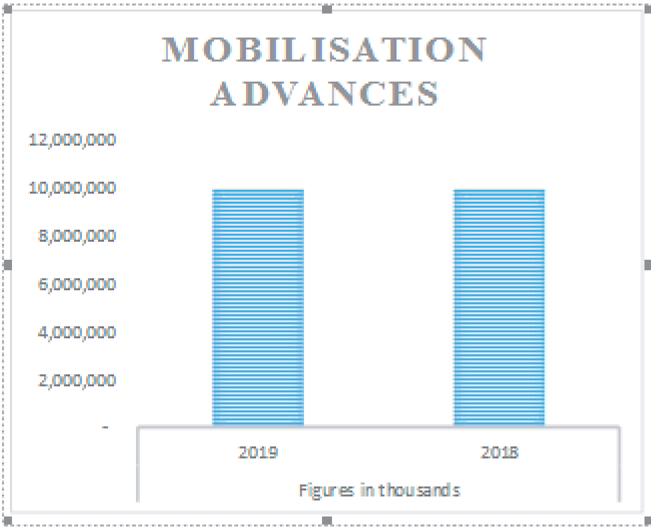
RA accumulated huge Development Projects payables (GoM) of about 62.9% from previous year (K80.2 billion in 2019 and K49.2 billion in 2018). As a result, RA is faced with excessive interest payments of 7.1billion in 2019 and 6.8 billion in 2018.



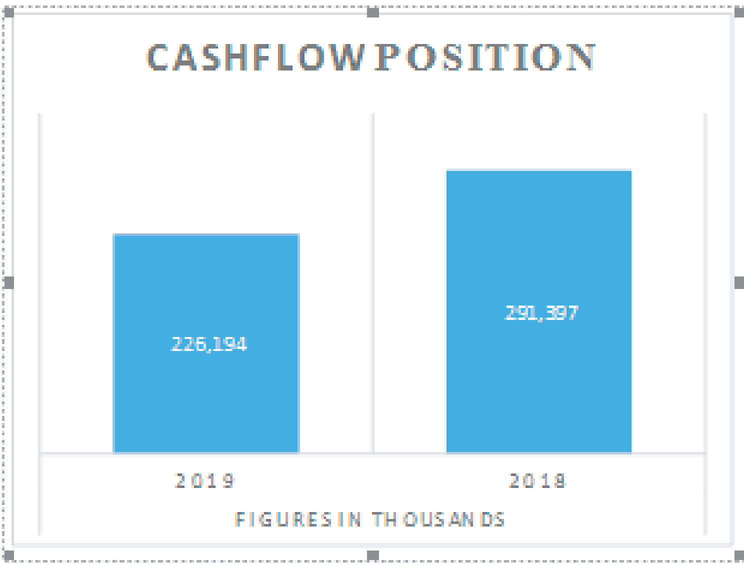


On Average, **RA** was taking **298 days in 2019** to make payments on Development Programmes as opposed to **266 days** in 2018.

RA has a constant K10 billion mobilization advances for both years 2019 and 2018 meaning that a lot of cash-flow is stuck in road projects that are failing to take off, monies that could have been used so service other roads. The figure below has the details



RA cash-flow position is going down compared to the previous financial year by 22.3% (K226 million in 2019 and K291 million in 2018). Refer to the figure below.



Audit Opinion

I reviewed and agreed with the basis for which the opinion of RA was issued. Being a clean audit opinion, I have categorized RA as medium risk and therefore, its operations will be monitored on routine basis especially on road infrastructures that have long or overdue project lives.

Weaknesses in Financial Controls and Operations

The audit of financial statements of the Roads Authority for the financial year ended 30 June, 2019 was done by Deloitte (Audit firm) on behalf of the Auditor General using section 10 of the Public Audit Act Amendment No 6 of 2018. We highlight some of the weaknesses in financial and internal controls as follows;

Concentration risk over awarding of Roads Development Projects

As was reported in the previous management report we noted that several development projects were being handled by one contractor. For example, during the period under review, the Authority's 21 projects (valued at K226.5 billion) were running as at year end, out of which 7 (valued at K112.4 billion) were being handled by Mota Engil alone. Though the amount will not be paid in financial year, the Authority has entered into a commitment with the contractor. This represents 39% and 61% in number and value, respectively.

Under staffing in the procurement department

We noted that the Procurement department is significantly understaffed Considering the level of activities, it handles each financial year, the department only has a Procurement Officer and a Procurement Specialist.

For instance in the year under review, the Authority awarded over K57 billion in development contracts, K22.4 billion in recurrent contracts, K6.4 billion in consultancies contracts, K20.7 million non-consultancies contracts in the year under review

Non settlement of payables

The financial statements of the Authority show that the entity' s figures of payables have increased by K30 billion from K49 billion in 2018 to K79 billion in the current year under review.

This increase is made up of an accumulation of certified works submitted for payment but not yet settled to date.

Excessive interest expenses

Interest penalties are charged by contractors at the point which Roads Fund Administration or Malawi Government release payments for works that have been certified. Total interest expense incurred for late payments on measured works in the current period has increased from K6.8 billion in 2018 to K7.1 billion in 2019.Such huge amount would be enough to cater for new development (including roads) projects in the country.

THE TOBACCO COMMISSION

Background

The Tobacco Commission is a statutory entity established by the Tobacco Industry Act No. 10 of 2019 and under Statutory Corporation Chapter 67:03 of the Laws of Malawi which, among other things has provided more protection to tobacco farmers while addressing conflict of interest among various licensed players in the industry.

The company operations are overseen by Board of Directors that are appointed by the Government. The Directors are responsible for the affairs of the company under the provisions of the Companies Act and the Public Finance Management Act (2003). The Table below shows names of the Directors, their designation and period of service.

Table 16: Tenure and list of Tobacco Commission Directors

Name	*Designation*	*Period of Service*
Inkosi Ya Makhosi M'mbelwa V	Chairperson	Served throughout the year
Mr. Arthur Nathuru	Commissioner	Served throughout the year
Mr. Francis F. Mwamadi	Commissioner	Served throughout the year
Mr. John Chikakwiya	Commissioner	Served throughout the year
Prof. Isaac Lamba	Commissioner	Served throughout the year
Mr. Boyden Ndhlovu	Commissioner	Served throughout the year
Mr. Glyx B Msanyama	Commissioner	Served throughout the year
Mr. Demobray N. Makuluni	Commissioner	Served throughout the year
Mr. Dennis Dias	Commissioner	Served throughout the year
Mrs Roselyn	Commissioner	Served throughout the year
Paramount Chief Kawinga	Commissioner	Served throughout the year
Senior Chief Khombedza	Commissioner	Served throughout the year
Senior Chief Mlumbe	Commissioner	Served throughout the year
Secretary to the Treasury	Ex-officio	Served throughout the year
OPC	Ex-officio	Served throughout the year
Secretary for Agriculture	Ex-officio	Served throughout the year
Comptroller of SC	Ex-officio	Served throughout the year

Main Activities

The Tobacco Commission core functions as outlined in the tobacco Auction Floors Act Cap 65:03 and Tobacco Act Cap 65:02 and the policy directives of the Malawi Government are to:

- Regulate the production, manufacture and marketing of tobacco;
- Advise government on the sale and export of tobacco; and
- Promote and expand the sale of tobacco.

The company operations are overseen by Board of Directors that are appointed by the Government. The Directors are responsible for the affairs of the company under the provisions of the Companies Act and the Public Finance Management Act (2003). The Table below shows names of the Directors, their designation and period of service.

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- Regulate the production, manufacture and marketing of tobacco;
- Advise government on the sale and export of tobacco; and
- Promote and expand the sale of tobacco.

TOBACCO COMMISSION

Income Statement

	2019 K'000	2018 K'000
Revenue		
Tobacco cess levy	462,039	480,515
Classification levy	814,906	717,273
Licences and permits	1,907,206	1,452,255
Total revenue	3,184,151	2,650,043
Other Income	73,747	56,412
Total income	3,257,898	2,706,455
Employee expenses	1,116,374	1,045,919
Office and General Expenses	735,102	542,809
Operating Expenses	1,065,825	715,217
Other Expenses	63,226	32,713
Depreciation	537,752	432,797
Total operating expenses	(3,444,532)	(2,713,043)
Operating (Loss)/Surplus	(260,381)	(63,000)
Increase in Fair Value of Investment property	0	80,956
Amortisation of deferred income of donated assets	239,674	239,674
Operating(Loss)/Surplus before net finance income	**(20,707)**	**257,630**
Net Finance income	**109,885**	**47,860**
Surplus for the Year	**89,178**	**305,490**

Financial Performance Overview

During the year under review, income generated by the TC from its normal operating activities amounted to **K3.2 billion** compared to **K2.7 billion** which was recorded in the year ended 30th June, 2018. Thus, revenue increased by 18% in the year ending 30th June 2019. This increase was due to increase in licenses and permits and classification levy.

Despite the increase in revenue by almost **K0.534 billion**, TC registered an operating loss of **K0.26 billion** during the year ended 30th June, 2019 as opposed to loss of **K0.063 billion** recorded in the financial year 2018. Thus, in these two financial years TC registered cumulative operating loss of **K323 Million.**

The Surplus Margin Ratio for TC declined during the year from 11.5 % to 2.8 % in the year ended 30th June, 2019. This has been due to the Amortization of deferred income of donated assets and net finance income.

Statement of Financial Position

	2019 K'000	2018 K'000
ASSETS		**Restated**
NON-CURRENT ASSETS		
Property, plant and equipment	3,496,764	1,809,032
Intangible asset	146,616	220,746
Investment property	0	1,680,000
Loans receivables	64,398	50,528
Total non-current assets	3,707,778	3,760,306
CURRENT ASSETS		
Inventory	12,033	11,245
Assets held for sale	32,055	183,000
Loans receivables	26,650	19,804
Trade and other receivables	515,776	652,212
Short term investments	522,093	584,589
Cash and cash equivalents	271,193	258,404
Total current assets	1,379,800	1,709,254
Total assets	5,087,578	5,469,560
RESERVE AND LIABILITIES		
Reserves		
Capital reserve	1,678,291	1,743,817
Revaluation reserve	1,162,135	1,162,135
Home ownership scheme reserves	101,188	78,199
General Reserve	807,200	711,185
Total reserves	**3,748,814**	**3,695,336**
Non-current liabilities		
Differed income-donated assets	0	39,674
Loan and borrowings	0	155,618
Total non-current liabilities	**0**	**395,292**

Current liabilities		
Current portion of long-term		
loans payable	0	44,564
Differed income-registration fees	650,059	712,699
Differed income-donated assets	239,674	239,674
Trade and other payables	449,031	3 81,995
Total current liabilities	1,338,764	1,378,932
Total Liabilities	1,338,764	1,774,224
Total reserves and liabilities	**5,087,578**	**5,469,560**

Financial Position Analysis

Liquidity

TC has a current ratio of 1.03:1, a decrease to the performance in 2018 which was 1.24:1. Despite the decrease of about 0.21% in 2019, TC still has enough sources of cash to pay every K1 worth of immediate liabilities. The current ratio of about 1:1 is too risk in terms of liquidity because the financial buffer is not there in order to cushion any unforeseen events.

Working Capital Management

TC registered 44 receivable days on average to collect cash from its debtors as opposed to 73 days in prior year, although there's an improvement in receivable days but still more the TC is failing to collect receivables within the required period of 30 days. Further, evidence of non- improvement in cash flow is an increase in operations payables, TC had K0.29 billion operating payables in 2019 opposed to K0.14 billion in 2018.

Audit Opinion

I reviewed and agreed with the basis for which the opinion of the Tobacco Commission was issued. The Key Audit Matter of valuation of properties for TC will be under monitoring since it consists about 73% and 69% of the total assets for the years ended 30th June, 2019 and 2018 respectively.

Weaknesses in Financial Controls and Operations

The audit of financial statements of the Tobacco Commission for the financial year ended 30 June, 2019 was done by Grant Thornton (Audit firm) on behalf of the Auditor General using section 10 of the Public Audit Act No 6 of 2018. We highlight some of the weaknesses in financial and internal controls as follows:

A: PRIOR YEAR MATTERS

1. Composition of the board

Section 6 of Tobacco Industry Act No 10 of 2019 provides that the Commission shall consist of eight members appointed by the Minister as follows:-

- One person nominated by and representing the tobacco Buyers' Associations;
- One person nominated by tobacco growers' associations and representing medium to large scale farmers;
- One person nominated by tobacco growers' association and representing medium to large scale farmers;
- One person who, in the opinion of the Minister, possesses sufficient knowledge and experience necessary for the development of tobacco industry as the minister shall determine;
- One representative from service providers in the tobacco industry;
- The following ex officio members-
- The Secretary responsible for Agriculture or his designated representative;
- The Secretary to the Treasury or his designated representative; and
- The Secretary responsible for trade or his designated representative

However, we have noted that the Commission has 17 Commissioners as compared to 8 Commissioners as stipulated in the Tobacco Industry Act No of 2019.

Lack of disaster recovery plan

ISO 27031 emphasis on the need to have a Disaster Recovery Plan to ensure business continuity to help when there are disasters (natural/man made). The aim is to ensure business resumption with limited down time and reduce the impact on an organization's operations if they are properly followed.

During our review of IT controls, we noted that the commission does not have a disaster recovery plan nor Disaster Recovery Site. Both of which are required in times of disaster because they will allow the operations of the Commission to resume as quickly as possible without having a significant impact on the Commissions operations.

Lack of Change Management Procedures

ITL and ISO define change management as a process that ensures that standardized methods and procedures are used to efficient and prompt handling of all changes, in order to minimize the impact of change-related incidents upon service quality, and consequently improve the day to day operations of the organization.

Change management would typically be composed of raising and recording of change request, assessing the impact, costs, benefit and risk of the proposed changes, developing business justification and obtaining approval, managing and coordinating change implementation, monitoring and reporting on implementation, reviewing and closing change requests.

Upon review and inquiry of the IT Manager we noted that the Commission do not have change procedures.

TEVETA

Background

Technical, Entrepreneurial, Vocational Education & Training Authority (TEVETA) is a regulatory body that was established in 1999 by an Act of

Parliament to promote and regulate sustainable provision of quality technical, entrepreneurial and vocational education and training for the Malawian work force in a socially responsible manner

The following directors and Corporation secretary served in office during the year covered by these financial statements:

Table 17: Tenure and list of TEVETA Directors

Name	*Designation*	*Period*
Mr Gilbert Chilinde	Chairperson	Full year
Mr Davie Ngulinga	Vice Chairperson	Full year
Mr Steven Duwa	Member	Full year
Mr Emmanuel Banda	Member	Full year
Mr Greene Lulilo Mwamondwe	Member	Full year
Sheik Dinala Chabulika	Member	Full year
Mr Felix Mahikiri	Member	Full year
Mr Willian Mbobe	Member	Full year
Ms Joy Chalira	Member	Full year
Mr Petros Kapatuka	Member	Full year
Secretary for Education	Member	Full year
Secretary for Labour, Skills and innovation	Member	Full year
Secretary to the Treasury	Member	Full year
Secretary for Industry, Trade & Tourism	Member	Full year
Mr Makulumiza Nkhoma	Executive Director	Full year

Main Activity

The principal activity of TEVETA is providing technical, entrepreneurial and vocational education and training in Malawi.

Statement of Comprehensive Income

	2019 **K'000**	**2018** **K'000**
INCOME		
Levy income	9,887,393	7,869,308
Interest received	41,947	118,449
Other income	1,496,351	253,899
Total income	**11,425,691**	**8,241,656**

EXPENDITURE

Programme expenditure		
Public and private sector training programme	157,219	356,919
Apprenticeship training programme	2,942,312	1,926,055
Informal sector skills development programme	173,001	214,974
Quality assurance services	616,068	453,451
Planning, monitoring and research	244,675	297,055
Information, education and communication	298,608	220,851
Fund and finance management	719,501	572,127
Risk management services	97,787	57,483
Service Centre management	326,046	258,207
Specific donor funded programmes	-	3,091
Total programme expenditure	**5,575,217**	**4,360,213**
Governance and management expenses	1,870,095	1,179,501
Bad debts and doubtful debts provision	3,813,918	2,469,123
Total expenditure	**11,259,230**	**8,008,837**
Surplus for the year	**166,461**	**232,819**
Other comprehensive income		
Fair value movements on available for sale assets	70,560	207,239
Total other comprehensive (loss)/income	**70,560**	**207,239**
Total comprehensive income for the year	**95,901**	**440,058**

Financial Performance Overview

Income

Overall revenue increased by K3.2 billion (representing a 26% increase from the previous year). Levy income increased by 25% from the previous year. However, there was a significant increase in other income of 489%. This spike is attributed to two main activities namely:- 1. Recovered bad debts of about K925 million, 2. Additional amount on college examination and registration fees of K265 million. It is very clear that trade receivables policy and implementation of the same is a challenge if we look at the receivable figures

Expenditure

Total expenditure increased by K3.2 billion (representing 41% increase from the previous year). There was a significant increase of K1 billion relating to apprenticeship training programme. Our cost structure analysis shows that apprenticeship alone contributes towards 53% (2019) and 44% (2018) of the total programme expenditure of TEVETA. Such being the case, there is need to for TEVETA to focus more on this programme item.

Statement of Financial Position

	2019 K'000	2,018 K'000
ASSETS		
non-current assets		
Property, plant and equipment	1,677,427	1,809,693
Investments	353,289	423,848
Long term staff receivables	116,775	-
Total non-current assets	2,147,491	2,233,541
Current assets		
Inventories	10,760	3,088
Receivables	6,088,468	4,971,085
Cash and cash equivalents	500,384	567,553
Total current assets	**6,599,612**	**5,541,726**
Total assets	**8,747,103**	**7,775,267**
FUNDS AND LIABILITIES		
Funds		
Capital fund	424,310	609,047
Capital Development Fund	56,000	56,000
General fund	3,466,114	3,059,861
Apprenticeship credit fund	80,581	82,910
Endowment fund	475,855	539,989
Revaluation reserves	775,269	831,844
Total funds	**5,278,129**	**5,179,651**

Non-current liabilities		
Borrowings	81,938	263,736
Total non-current liabilities	**81,938**	**263,736**
Current liabilities		
Accounts payable	3,078,809	2,102,723
Borrowings	140,805	227,100
Bank overdraft	167,422	2,057
Total current liabilities	**3,387,036**	**2,331,880**
Total funds and liabilities	**8,747,103**	**7,775,267**

Financial Position Analysis

Liquidity

TEVETA has a current ratio of 1.95:1, a decline to the performance in 2018 which was 2.38:1. This means that in 2019, TEVETA had K1.95 as ready source of cash to pay every K1 worth of immediate liabilities. The receivables alone constitute 70% and 64% of the total assets for the years ended 30th June, 2019 and 2018 respectively. This is back borne and root cause of the liquidity risk of TEVETA. The Board should into this issue as a Key Performance Indicator for monitoring if TEVETA is to survive financing its operations in future

Working capital management

TEVETA'S receivables increased by K1.1 billion (representing a 22%) from the previous year, however the Authority registered 224 Receivable days on average to collect cash from its debtors as opposed to 230 days in prior year, indicating a slight improvement in the collection of debts. Further, payables for TEVETA increased by K1 billion from the previous year (representing 46%).Overdraft for TEVETA increased by K165 million from the previous year (representing 8,139%). Despite the increase in payables amount and an increase in the overdraft amount, the authority has maintained a significant cash and cash equivalent balance of KO.5 billion in the current year but this may be attributed to the partly the overdraft.

Liabilities

TEVETA'S non-current liabilities amounted to K82 million in the current year as compared to K263 million in the previous financial year, this represents a 31% decrease. Debt to Total Funds ratio is 1.53% for the current year as compared to 4.85% in the previous year. This shows that the authority is low geared.

Audit Opinion

I reviewed and agreed with the basis for which the opinion of TEVETA was issued. I have categorized TEVETA as a medium risk organization because of the liquidity risk of receivables build-up and my office will be monitoring this Key Audit Matter.

Weaknesses in Financial Controls and Operations

Legal suits

During the period under review, TEVETA was sued by Ndi Tsogolo Langa for damages for loss of business and defamation and a total sum of K650 million was being claimed. An out of court settlement of K225 million was paid to the plaintiff. Legal costs alone were in excess of K35 million. This was as a result of false information that was published in the media.

Government Debt not collected

Out of a total of K6.9 billion that was owed by Government as at 30th June, 2018 only K700 million was paid during the year under review. This means that even K5.8 billion levy that was billed in 2019 has not been collected from Government.

PAYE not remitted in time

PAYE deducted for some months was not remitted to Malawi Revenue Authority in time.

Unpaid PAYE on gratuity

We noted that PAYE on gratuity amounting to K133,909,401.81 for the months of October, 2018 and June, 2019 was not remitted to Malawi Revenue Authority.

Fringe benefits Tax (FBT) not remitted to MRAFBT amounting to K55,512,125.88 for the whole year was not remitted to MRA.

UNIVERSITY OF MALAWI

Background

Founded in 1964 and with a central administration office situated in Zomba, the University of Malawi has been built on a federal university system of four constituent colleges namely; Chancellor College in Zomba (focusing on education, science and the arts); The Polytechnic in Blantyre (focusing on engineering and business); The College of Medicine with its main campus in Blantyre and Kamuzu College of Nursing, in Lilongwe.

The University of Malawi was established to advance knowledge and to promote wisdom and understanding by engaging in teaching, research, consultancy, and public and community engagement and by making provision for the dissemination, promotion and preservation of learning responsive to the needs of Malawi and global trends through a wide range of programs.

In 2009 University of Malawi formed University of Malawi Medical Scheme (UNIMED) with the approval of the Council of the University to provide health care finance for the healthcare needs of staff of the University of Malawi and their dependents and all bona fide students.

Table 18: Tenure and list of UNIMA Council Members

Name	*Designation*	*Tenure*
Dr Billy Gama	Chairman	Full Year
Mrs Videlias Mluwira	Member	Full Year
Professor Lewis Mughogho	Member	Full Year
Professor Moira Chimombo	Member	Full Year
4 Principals from the colleges of UNIMA	Ex-Officio	Full Year
2 members appointed by UNIMA Student Union	Ex-Officio	Full Year
4 members appointed by Senate	Ex-Officio	Full Year
Vice Chancellor	Ex-Officio	Full Year
University Registrar (Secretary)	Ex-Officio	Full Year
Secretary for Education	Ex-Officio	Full Year
Secretary for DHRMD (co-opted)	Ex-Officio	Full Year
Comptroller of Statutory Corporations	Ex-Officio	Full Year
Secretary to the Treasury	Ex-Officio	Full Year
Comptroller of Statutory Corporations	Ex-Officio	Full Year

Main Activities

The University of Malawi offers both postgraduate and undergraduate programmes in the fields of Medicine, Education, Commerce, Environmental Sciences, Economics and Developmental Studies, Biology, Chemistry, Theology and Religious Studies and Administrative Studies. These programmes are offered by the five constituent colleges of the University of Malawi namely: Chancellor College, College of Medicine, Domasi College of Education, Kamuzu College of Nursing and The Polytechnic.

Statement of Comprehensive Income

	2019 MK'000	**2018 MK'000**
INCOME		
Government subventions	32,572,311	23,929,652
Tuition fees and financial contribution	8,745,964	8,654,626
Projects grants and research income	28,871,493	25,909,439
Other Income	4,830,669	3,476,003
Total Revenue	**75,020,437**	**61,969,720**

EXPENDITURE

Chancellor College	24,363,554	13,916,118
College of Medicine	22,179,396	16,653,781
Kamuzu College of Nursing	7,029,330	5,512,754
The Polytechnic	16,685,398	14,044,196
University Office	1,051,429	1,151,565
UNIMED	1,525,123	897,895
Total expenditure	**72,834,230**	**52,176,309**
Surplus before reallocation of designated funds and transfers to capital funds	**2,186,207**	**9,793,411**
Designated funds	(8,629,438)	8,333,910)
Capital expenditure	(1,921,522)	(1,448,120)
Release from capital fund	8,014,202	1,341,249
Surplus/(Deficit) for the year	**(350,551)**	**1,352,630**

Financial Performance Overview

Total income increased by 21% from K61.9 billion in 2018 to K75 billion in 2019. Government subvention increased by 36% from K23 billion to K32 billion and it represented 43% of the total income. Other income also increased by 39% from K3.4 million in 2018 to K4.8 million in 2019.Tuition fees and financial contribution which represented 12% of the total income has increased by 1% from K8.6 billion in 2018 to K8.7 billion in 2019.

Total expenditure grew by 40% on a year to year basis, to K72 billion from K52 billion in 2018. Chancellor College expenses which represented 33% of total expenditure grew by 75% from K13 billion to K24 billion. This was mostly due to common service / other charges which grew by 3036% from K186 million to K5 billion.

The University made a surplus of K2.1 billion before reallocation to designated funds and transfers to capital funds representing a 78% reduction.

Overall, the University has made a deficit of K350 million in 2019 against a surplus of K1.3 billion in 2018 after reallocation to designated funds and transfers to capital funds representing 126% reduction in performance.

Statement of Financial Position

	2019 MK'000	2018 MK'000
ASSETS		
Non-current assets		
Plant, Property and Equipment	78,508,091	86,826,968
Total non-current assets	**78,508,091**	**86,826,968**
Current assets		
Inventories	328,309	363,834
Receivable	9,362,933	9,140,531
Cash and cash equivalents	14,583,835	14,861,497
Total current assets	**24,275,077**	**24,365,862**
Total assets	**102,783,168**	**111,192,830**
FUNDS AND LIABILITIES		
Funds and Reserves		
Capital Fund	78,508,091	86,826,968
General Fund	5,044,485	3,693,683
Designated Fund	10,347,479	10,728,657
Total equity and Reserves	93,900,055	101,249,308
Current liabilities		
Bank overdraft	-	715,576
Payables	8,883,113	9,227,946
Total current liabilities	**8,883,113**	**9,943,522**
Total equity and liabilities	**102,783,168**	**111,192,830**

Financial Position Analysis

Liquidity

The current ratio measures the ability of a company to settle current liabilities through disposal of its current assets. UNIMA has a current ratio of 2.7, against a prior year ratio of 2.4. The ratio shows that UNIMA is in better position in to meet its short term liabilities when they are due.

UNIMA was taking **46 days** in the year 2019 to convert receivables into cash and cash equivalent compared to **54 days** during previous financial year. Payables have gone down by 3% from K9 billion to K8 billion.

Audit Opinion

My audit opinion did not raise significant issues of UNIMA. However, the entity will be subjected to close monitoring on prior and post de-bundling events.

Weaknesses in Financial Controls and Operations

A. CHANCELLOR COLLEGE

Over-Payment of Responsibility Allowances: K2,105,043.50

Section 10 (1) (f) of Public Finance Management Act (2003) states that each controlling officer is responsible for ensuring that in relation to his Ministry, there is no over-expenditure or over-commitment of funds and a review is undertaken each month to ensure that there is no such over-expenditure or over-commitment.

An inspection of payrolls, personal files and memoranda disclosed an over-payment of responsibility allowances amounting to K2, 105,043.50. According to a memorandum dated 7th August, 2018 Ref: CC/ED/2/5, the Dean of Education requested the Registrar to facilitate payment of five (5) months' duty allowances to three (3) teaching practice coordinators who were involved in making students placements from March 2018 and ending with final assessments in July, 2018.

It was noted that, through the memorandum dated 4th November, 2011 Ref: CCF/3/8, the principal approved that the teaching practice coordinators should be paid responsibility allowances for the three months of teaching practice for last academic year. In this regard, the Registrar approved that the coordinators in question be paid three months' allowances as approved in 2011.

However, a review of September, 2018 payroll revealed that the coordinators were paid five months' responsibility allowances as opposed to the approved three, hence the over-payment.

Failure To Remit Contributions to University Of Malawi Medical Scheme: K117,987,500.00

Rule number 13.2 of Rules and Operating Procedures for the University of Malawi Medical Scheme (UNIMED) stipulates that the monthly contributions payable to the scheme by or in respect of a member shall be due monthly in advance and payable by not later than the third day of each month. Where contributions or any other debt owing to the scheme, have not been paid within One (1) calendar month from the due date, the SCHEME, shall have the right to suspend all benefit payments, which have accrued to such member irrespective of when the claim for such benefit arose. In this regard, as a member of the Scheme, Chancellor College is expected to remit its contributions to the Scheme within the stipulated period.

Contrary to the above mentioned Rule and Operating Procedure, a review of payables for 2018/2019 financial year revealed that Chancellor College flouted these procedures by failing to remit the contributions to University of Malawi Medical Scheme as evidenced by a list of outstanding invoices amounting to K117,987,500.00. It was further noted that some of the invoices had been outstanding since 2017.

Stores and Medical Supplies Not Accounted For Through Ledgers and Stock Sheets: K46,937,420.00

Treasury Instructions (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issues in small lots, the transactions must be recorded in the Stores Ledger for accountability and transparency. Likewise, the University of Malawi Accounting Procedures Manual (2009), section 2.2.7.5 recognises a Stores Ledger as part of important Books of Accounts/Registers to be kept by University of Malawi. This ledger records individual stocks/stores item bought, or received from other stores, in quantity and value and issues/deliveries made on daily basis. The stores ledger should be posted by accounts section on the basis of GRN duplicate copy received from the stores. Balances of stores ledger accounts should also be reflected on daily basis.

An inspection of payment vouchers and stores receipt vouchers for the year ended 30th June 2019 disclosed that stores items amounting to K46,937,420.00 were not accounted for through the ledger.

B. COLLEGE OF MEDICINE

Long Outstanding Trade Receivables: K6,588,750.00

During the audit exercise, it was observed that the College had long outstanding receivables in respect of trade receivables dating back to 2016 and some of the trade debtors had not been settling their dues.

Further audit tests showed that the college did not make a follow up on the long outstanding receivables as evidenced by lack of documentation e.g. reminder letters.

Procurement Plan Not Prepared: - K151, 107, 641.82

Section 39 (1) of the Public Procurement and Disposal of Assets Act (2017) requires procuring and disposing entities to plan procurement and disposal activities with a view to achieving maximum value from both public expenditures and disposal proceedings including other objectives set forth in this Act.

Contrary to the above requirement, examination of procurement records revealed that the College did not prepare projects' procurement plan for the 2018/2019 financial year. It was however, noted that during the year under review the college made substantial procurements amounting to K151,107,641.82.

Stores Items Not Accounted For Through The Ledger: K135,018,796.07

UNIMA Accounting Procedure 2.2.7.5 requires the college to maintain the stores ledger in which individual stocks/stores item bought, or received from other stores, in quantity and value and issue/deliveries made on daily basis. The stores ledger should be posted by accounts section on the basis of GRN duplicate copy received from the stores. Balances of stores ledger accounts should also be reflected on daily basis.

An inspection of payment vouchers and stores receipt vouchers for the period July 2018 to June 2019 disclosed that stores items amounting to K135,018,796.07 were not account for through the ledger.

College of Medicine SPORTS COMPLEX

Expenditure at Source: K5,106,130.00

University of Malawi financial regulations section 5.5 (iv and v) requires that all revenue income must be banked intact on the same day or the following business day and under no circumstance should cash from revenue or income be used to meet expenditure of any nature.

However, an inspection of payment vouchers for the period under review disclosed that revenue income amounting to K5,106,130.00 was used to meet operational expenditure.

Stores Items Not Accounted For Through The Ledger: K5,055,950.00

Proper stores management system requires that documentation should be maintained that keeps a record of the items held in stores. Among other stores records is a bin card which is used to quantitatively record the items received, issued and remained in the stores.

An inspection of payment vouchers, Good Receiving Note and stores bin cards for the period of July 2018 to June, 2019 disclosed that stores items amounting to MK5,055,950.00 were not account for through the ledger.

C. KAMUZU COLLEGE OF NURSING

Long Outstanding Trade Receivables: K370,931,886.38

Receivables represent the amounts that are owed to an entity, whilst prepayments represent payment in excess of expenditure for the period. Major components of debtors at Kamuzu College of Nursing include; various prepayments, trade receivable and staff receivables.

Review of Financial Statements and their supporting schedules disclosed outstanding receivables over 90 days amounting to K370,931,886.38 which had not been collected.

D. DAVID LIVINGSTONE MEMORIAL CLINIC

Long Outstanding Trade Receivables: K9,642,649.12

Receivables represent the amounts that are owed to an entity, whilst prepayments represent payment in excess of expenditure for the period. Major components of debtors at David Livingstone Memorial Clinic are of medical services supplied to members of different medical schemes.

Review of Financial Statements and their supporting schedules disclosed outstanding receivables over 90 days amounting to K9,642,649.12 which had not been collected.

E. THE POLYTECHNIC

Cash Imprest Not Retired: K74,710,570.17

Chapter 9.2.3.3 of the University of Malawi Financial Regulations stipulates that "all imprest shall be retired within two days after the return of the employee from official duty and that if the outstanding imprest is not cleared within the stipulated time the whole amount shall be recovered from the salary of the concerned employee and the employee shall be liable for disciplinary action.

A review of financial statements for the period under review disclosed cash imprest amounting to MK74,710,570.17 that was not retired by some members of staff as at the time of the audit.

F. UNIVERSITY OFFICE

Long Outstanding Trade Receivables: K30,603,103.00.00

Receivables represent the amounts that are owed to an entity, whilst prepayments represent payment in excess of expenditure for the period. Major components of debtors at University Office include; various prepayments, trade receivable and staff receivables.

Review of Financial Statements and their supporting schedules disclosed outstanding receivables over 90 days amounting to K30,603,103.00 which had not been collected.

Non-Maintenance Of Stores Register: -K28,689,705.28

Treasury Instructions 11.7.1.5 of 2004 states that a stores ledger for the purpose of recording the receipts and issues of all stores.

Contrary to the above regulation, the audit exercise established that during the period under review UNIMED did not have a stores register in which to record stores purchased during the year. Consequently, stores items amounting to MK 28,689,705.28 were not accounted for through the stores register.

ELECTRICITY GENERATION COMPANY OF MALAWI (EGENCO)

Electricity Generation Company (Malawi) Limited (EGENCO) is a limited liability company incorporated under the Companies Act (Cap 46:03) of the Laws of Malawi on 7th September, 2016. The company was established with the mandate of generating electricity in Malawi. The company was formed following the unbundling of the Electricity Supply Corporation of Malawi (ESCOM) Limited into two separate institutions: one for generating electricity (thus EGENCO) and another one for transmission and distribution (thus ESCOM).

The following directors served during the year

Justice Lloyd Muhara	Chairman
Mr. Arthur Mandambwe	Director
Ms. Mary Nkando	Director

Mrs. Gloria Chawinga	Director
Rev. Fr. Noel Gama	Director
Mr. Patrick Matanda	Director
Mr. Ben Botolo	Director
Mr. Stuart Ligomeka	Ex-official
Mrs. Gertrude Lynn Hiwa, SC	Director

Main Activities

The principal activity of the Company is generation of electricity. Currently EGENCO operates four hydro power stations namely: Nkula, Tedzani, Kapichira and Wovwe. The company also operates power thermal power plants in Lilongwe, Mzuzu and Mapanga, Blantyre. EGENCO has a total generation capacity of 372.64MW of which 21.7MW is from standby diesel power plants.

Statement of Comprehensive Income

	2019 K'000	**2018 K'000**
INCOME		
Revenue	56,650,184	43,080,453
Cost of sales	(29,107,450)	(17,345,225)
Gross profit	27,542,734	25,735,228
Other Income	8,023,892	513,039
Administration costs	(13,037,469)	(11,809,378)
Operating profit	22,529,157	14,438,889
Net finance income	(365,861)	1,123,313
Profit before income and tax expense	22,163,296	15,562,202
Income tax expense	(6,941,606)	(4,527,524)
Profit for the year	15,221,690	11,034,678
Other Comprehensive income		
Items that will be classified to profit or loss		
Revaluation surplus on property	102,431,465	—
Deferred Tax Liability on revaluation surplus	(30,729,439)	—
Total other comprehensive income net of tax	71,702,026	—
Total comprehensive income for the period	**86,923,716**	**11,034,678**

Financial Performance Overview

Revenue income generated from sale of generated electricity of K56.65 billion was recorded by the EGENCO. This was 31.5% increase as compared to that for year ended 30th June 2018. EGENCO cost of sales increased by 67.81%. The main outlier in the cost of sales was maintenance which had a spike of about K9 billion. On other income there was also a one-off income in form of grants released to the tune of K7.9 billion

EGENCO registered a profit of K15.22 billion during year ended 30th June, 2019 compared to K11.03 billion that was recorded in year 30th June, 2018. This represented a 37.94% increase in profit for the year. Further to this, EGENCO had a revaluation of property (K102 billion) which helped to improve its comprehensive income by 687.70%.

The Return On Capital Employed (ROCE) for EGENCO improved by 21.94% during the year ended 30th June, 2019 compared to ROCE was 13.5% in 2018.

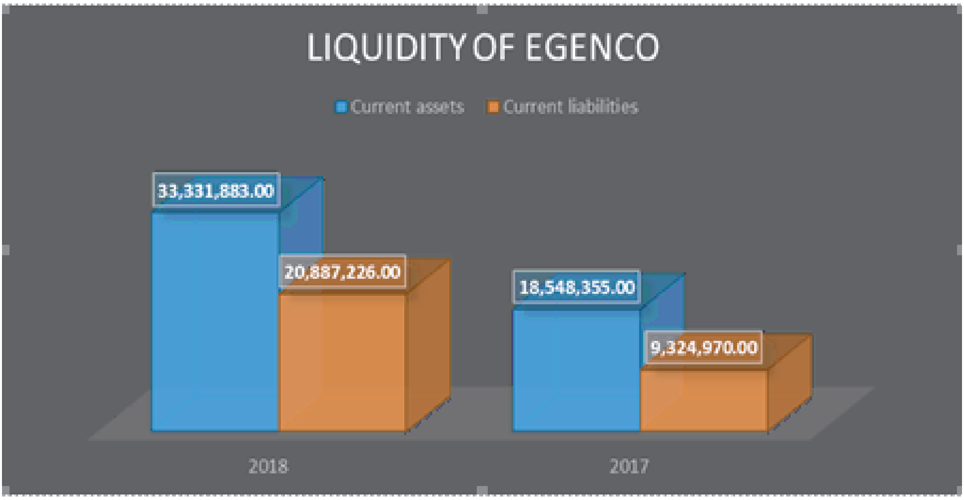
Financial Position of EGENCO

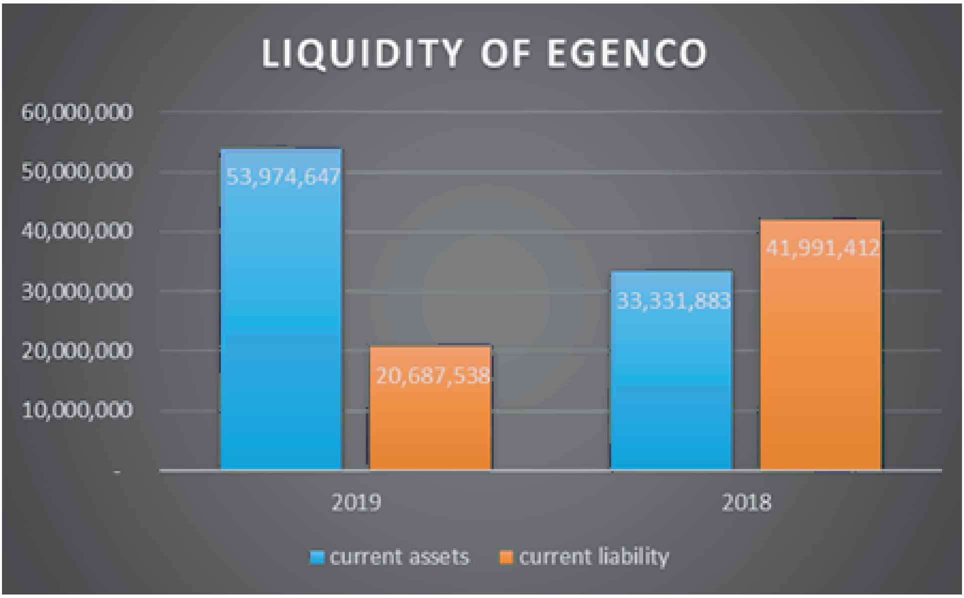
	2019 K'000	**2018 K'000**
ASSETS		
NON-CURRENT ASSETS		
Plant, Property & Equipment	163,310,477	23,967,131
Capital work-in-progress	15,808,752	15,894,139
TOTAL NON-CURRENT ASSETS	**179,119,229**	**39,861,270**
CURRENT ASSETS		
Inventories	6,585,705	2,432,526
Trade and other receivables	36,959,182	25,693,143
Advance payments	2,874,378	2,757,259
Income Tax Recoverable	747,639	—
Cash and cash equivalents	6,807,743	2,448,955
TOTAL CURRENT ASSETS	**53,974,647**	**33,331,883**
TOTAL ASSETS	**233,093,876**	**73,193,153**
EQUITY AND LIABILITIES		
Share capital	100,000	100,000
Funds awaiting capitalization	15,353,754	—
Capital reserves	30,004,034	30,004,034
Revaluation reserve	71,702,026	—
Retained earnings	29,081,011	13,859,321
Total shareholders' equity	**146,240,825**	**43,963,355**

Non-current liabilities		
Borrowings	6,121,129	5,408,545
Deferred income	32,010,256	2,010,216
Deferred tax liability	38,377,897	706,851
Total non-current liabilities	76,509,282	8,125,612
Current liabilities		
Bank Overdraft	412,646	—
Borrowings	1,049,549	2,327,840
Trade and other payables	7,130,912	5,813,266
Income tax payable	—	4,039,439
Differed income	1,750,662	216,960
Concession fees payable	—	8,706,681
TOTAL CURRENT LIABILITIES	**10,343,769**	**20,887,226**
TOTAL EQUITY AND LIABILITIES	**233,093,876**	**73,193,153**

Liquidity

The Current Ratio, also known as the working capital ratio, as it is based on working capital or net current assets. It is a measure of the liquidity for EGENCO that compares its current assets with those creditors due to be paid within one year of the balance sheet data (otherwise known as current liabilities). The chart below shows the relationship between current assets and liabilities for the two financial years ending 2018 and 2019.





Source: EGENCO financial statement

The financial statements indicate that EGENCO is in better position in terms of liquidity as the current ratio for the financial years ending 2019 compared to 2018 standing at 2.60 and 0.79 times respectively.

Working Capital Management

Inventory days have increased by 31.39 days, moving from 51.19 days to 82.58 days.

Accounts receivable collection period for EGENCO have increased. It took on average 20.43 more days to collect what EGENCO customers owed the company than the previous financial year. i.e. it took on average 238.12 days in the year ended 2019 and 217.69 days in 2018 The receivable collection period gives us a clear view of the financial position of EGENCO in terms of how long, on average, it takes the clients to pay what they owe. This in other words shows us the efficiency of the EGENCO in collecting its debts.

Accounts Payable Payment Period for EGENCO improved in the just ended 30 June 2019. The number of days for EGENCO in settling its liabilities had decreased from 122.33 days in the 2018 financial year to 89.42 days in 2019, EGENCO reduced the number of days by 32.91 days in paying off suppliers. An indication of improved efficiency.

Audit Opinion

I reviewed and agreed with the basis for which the opinion of EGENCO was issued. Being a clean audit opinion, I have categorized EGENCO as a medium risk. However, I have to continuously monitor the post property revaluation performance of the entity which is a Key Audit Matter

Weaknesses in Financial Controls and Performance

Non-Compliance with IAS 16 over the Valuation of Land and Buildings

As per IAS 16 paragraphs 36 and 38:

- 36- If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.
- 38- The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

However, during our review of company’s land and buildings, we noted that all items, other that power houses, were subjected to the asset revaluation process which took effect at the beginning of the year.

Lack of Lease Agreement over Power Genset Leased to the Polytechnic

At its seventh meeting held on 11th September, 2018 at Umodzi Park Hotel in Lilongwe, the company’s board of directors passed a resolution duly signed on 19th December, 2018, ratifying the leasing of diesel Genset to the Polytechnic by management of EGENCO before seeking board authorization as recommended by the Projects, Operations and Technical Committee.

However, upon further inquiry, it was noted that the transaction is not supported by a completed lease agreement as per the recommendable best practices regarding such dealings.

Transfer of title to assets still pending

Title of Property is required to be in the Company's name as proof of ownership of the assets held.

During our verification of Property, plant and equipment, we noted that, the Company is still in the process of acquiring title deeds to several of its properties located in various places throughout the country mainly affecting land and buildings.

Inventory items with quantities but with zero values

During our review of the inventory valuation report, we noted that there were inventory items with quantities but with no values attached.

This was noted on valuation report for different stations as presented below. Refer to Table 19 below for the complete listing.

Table 19: Inventory items with no value

Sock code	Description	Quantity as per valuation report	Location
300/0029	Diclofenac 100mg SR	9680	N6
307/005	Maxiplex 30s	9600	N6
303/005	Lunart Forte	7082	W6
304/001	Ferofolic 200mg Tablet	4800	N6
309/0011	BG - Cold	4500	W6
329/0022	Gauze Roll Pieces	4400	T6
331/001	Clomifene 50mg Tablets 30s	3800	N6
332/0022	Savlon Wound Solution	3500	N6
329/0024	Wow Bandages 15cm 10s	2004	W6
304/003	Fefol 200mg Capsule	1970	W6
307/0010	Vit C	1723	T6
331/0013	Hydrogen peroxide 500ml bottle	1625	K6

Controls over asset register need improvement

In accordance with IAS 16, the cost of an item of property, plant and equipment shall be recognized as an asset if, and only if:

(*a*) it is probable that future economic benefits associated with the item will flow to the entity; and

(*b*) the cost of the item can be measured reliably.

However, during our physical inspection of the company's assets, we noted that there were some assets being used by the entity at Nkula and Tedzani Power stations. These assets were not in the company's register as at 30th June, 2019.

Long outstanding other receivables amount

As per the Financial Reporting Standards, one of the criteria for recognizing assets is that it should be probable that future economic benefits will flow to the entity.

However, during our review of the company's other receivables, we noted that the company is carrying an amount due from ESCOM amounting to K15,906,876.67 which has been outstanding for over one accounting period as such it is not probable that the amount will be collected due to the fact that the receivable did not arise from the normal sale of electricity generated by EGENCO.

Long outstanding receivables from ESCOM

It is considered as best practice for the company to ensure that all receivables owing from customers are collected on a timely basis and that all receivables whose recoverability is uncertain are provided adequately as required by the International Financial Reporting Standards.

However, during our audit of the trade receivables, we noted that the receivables due from ESCOM grew from K30.6 billion in 2018 to K34.5 billion in 2019.

Below is the age analysis for the account receivables balance

Current	**>30 days**	**>30<60 days**	**>60 days**	**Total**
K16.9 billion	K4.5 billion	K4.3 billion	K8.8 billion	K34.5 billion

As at 30th June, 2019, no provision has been made against such amounts.

Controls over grants need improvement

It is considered best accounting practice that proper documentation is maintained for government grants.

However, during our review of deferred income, we noted that there were amounts reported as deferred income in form of government grant. There was no documentation in support the JICA grant with a closing balance of K1.9 billion.

Upon further inquiry, it was noted that this is part of the take on balances from ESCOM following the unbundling process.

Lack of supplier account reconciliations

Preparation of reconciliations is an internal control that ensures that errors are detected on a timely basis. Supplier account reconciliations are prepared to reconcile supplier invoices which have not been included in the general ledger and invoices not included on the supplier statement.

However, during our review of year end account payable reconciliations, we noted that an account balance payable to ESCOM was not reconciled. The balance as at 30 June 2019 was K87,539,979.13.

Controls over prepayments need improvement

Advance payments are amounts paid before goods or services are received or rendered as at period end. Such payments are recognized as assets for the period then ended.

Proper bookings are made upon receipt of the invoices for the goods received or services rendered.

However, during our review of the company's advance payments balance as at 30th June, 2019, we noted that the balance included some payments that were made after the year end as summarized below:

Payee	***Reference***	***Description***	***Amount (MK)***
Teligenta Limited	EGC349/G/SS/G/FY18 – 19 (Contract)	Breaker complete with drive – Kapichira	117,553,356.00
Lafarge	8560010112 (Invoice)	Cement for Tedzani Project	94,467,092.94
Total			**212,020,448.94**

Internal audit process need improvement

As part of its corporate governance, the board established Internal Audit Function aimed at reviewing the systems and processes implemented by the company.

However, based on our review of the internal audit function processes, it was noted that these do not include computerized software or packages which provide linkages between various processes and aiding efficiency with regard to the execution of its procedures.

RECOMMENDATIONS

In the course of my reviews, regrettably, evidence has shown that in certain cases the recommendations have not been given due consideration by the Statutory Bodies or the Government at large

A summary of recommendations includes: -

(1) Heavy sanctions to be meted on SOEs that do not submit the audited financial statements six (6) months after the year end as stipulated by the PFMA (2003);

(2) Compliance to have the financial statements prepared and audited within four and six months respectively after closure of financial year is still a challenge for most of the Statutory Bodies. The Boards should make sure that this activity is given due attention

(3) Statutory Bodies that have both the corporate and delegated functions of Government e.g. MACRA, MERA, RA, Roads Fund, MRA should be preparing two sets of accounts, one for the corporate affairs and the other for the technical or delegated business unit

(4) The KPI between the Boards and Government gives a weight of 20% on financial management but looking at the common problems facing Statutory Bodies, this weight needs to be revised upwards in order to promote relevance and focus by the Boards;

(5) Sanctions and rewards should be introduced on Statutory Bodies for either bad or good performance otherwise as it is no one takes the responsibility of poor performance;

(6) A couple of Statutory Bodies are facing or have the potential to have Going Concern issues, most of them it is to do with insolvency problems. The Government through the Board should make sure that there is period of serious agreed upon austerity measures if the entities are to bounce back into business;

(7) Statutory Bodies with Going Concern issues should be given turn around and monitorable targets;

(8) Government should at all cost minimize or if possible stop financial bailouts because they tend to inhibit the root causes of poor performance of the Statutory Bodies;

(9) Strict compliance with financial provisions should be enforced in the Statutory Bodies in order to improve public financial management and control;

(10) The composition of some Statutory Bodies require review especially on composition. There is need for proper balance of skills mix in order to have an effective and efficient governance oversight structure

ACKNOWLEDGEMENT

I wish to place on record my profound gratitude and appreciation to Board of Directors and heads of the Statutory Bodies for providing the necessary information to assist in the compiling of this report. Additionally, I wish to extend my gratitude to the outsourced for the good job well done. The cooperation enabled me to obtain information and documentation for my review.

Lilongwe, Malawi

25th June 2019