

REPORT OF THE AUDITOR GENERAL
ON THE
ACCOUNTS OF THE GOVERNMENT
OF THE
REPUBLIC OF MALAWI

For The Year Ended 30th June, 2012

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

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

31st December, 2014.

The Honourable Minister of Finance
Ministry of Finance
P.O. Box 30049
Lilongwe 3
Malawi

Dear Sir,

Pursuant to the provision of Section 184 (2) of the Constitution of the Republic of Malawi and the Public Audit Act, I have the honour to submit my Report on the results of the audit of the Accounts of the Government of the Republic of Malawi for the year ended 30th June, 2012 for tabling in the National Assembly.

Yours faithfully,



STEPHENSON KAMPHASA
Auditor General

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EXECUTIVE SUMMARY

In accordance with Section 6 of the Public Audit Act, I have, on behalf of the National Assembly, examined and enquired into and audited the accounts of Controlling Officers and Receivers of Revenue and persons entrusted with the collection, receipt, custody or disposal of public moneys or public stores. The audits have not been limited to the accounts for the year ended 30th June, 2012, but have, where necessary, been continued into the subsequent year.

The Government budgetary operations registered a reduction and expansion in revenue and expenditure respectively, during the year under review. Total revenue collected decreased by K11.8 billion to K243.6 billion which compares adversely to K255.4 billion realized in 2010/11 financial year. Total expenditures increased by K7.6 billion from K231.2 billion in 2010/11 to K238.9 billion. Domestic revenue deteriorated due to economic hardships the country was going through during the year under review mainly due to slow productivity making it difficult for the Malawi Revenue Authority to collect tax revenue as expected.

During the year under review, the Recurrent Revenue Account collected MK243.6 billion while the Recurrent Expenditure was K238.9 billion and MK33.2 billion was transferred to Development Account Part II resulting into a deficit of MK28.5 billion. Total expenditure charged to the Development Account amounted to MK47.2 billion reflecting an increase of MK5.6 billion over MK41.6 billion which was spent in 2010/2011.

There were serious weaknesses in the IFMIS – Central Payment System and in the systems of internal controls in Ministries, Departments and Agencies during the year under review. Bank reconciliations were not regularly performed for all bank accounts maintained by the Reserve Bank of Malawi. These lapses in financial management control systems resulted in suspected financial mismanagement and fraud of public funds totaling MK88.98 billion. The suspected MK88.98 billion is yet to be substantiated to verify its exact status whether the money in question were lost through mismanagement and fraudulent activities and how to mitigate the factors surrounding the occurrence.

PART I

INTRODUCTION

Audit of Public Accounts

1. I am required under Section 184 (1) of the Constitution of the Republic of Malawi to audit and report on the public accounts of the Government of Malawi and to exercise such other powers in relation to the public accounts and accounts of other public authorities and bodies as may be prescribed by an Act of Parliament, in so far as they are compatible with the principal duties of my office.
2. Section 184 (2) requires me to submit reports at least once a year to the National Assembly through the Minister responsible for Finance. Although Section 15 of the Public Audit Act requires me to report to the National Assembly through the President and the Speaker, the provision is inconsistent with the Constitution, and since the Constitution is a supreme law, this provision is deemed to be invalid to the extent of the inconsistency. Consultations with the Law Commission have been initiated to have the inconsistency cleared. During the 2010/11 financial year an Institutional Review of National Audit Office was undertaken by the Department of Public Service Management in the Office of the President and Cabinet. Among other things the review report which was approved by the Government has included a recommendation that I should be reporting directly to the National Assembly.
3. 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 each ministry, department, agency and public authority or body do ensure that:—
 - (a) Revenue is properly assessed and collected;
 - (b) Expenditure is validly and correctly authorized;
 - (c) Revenue, expenses, assets and liabilities are properly recorded and accounted for;
 - (d) Financial and operating information is reliable;
 - (e) Assets are safeguarded against loss or destruction;
 - (f) Resources are employed and managed in an economic, effective and efficient manner;
 - (g) There has been no waste or extravagance;
 - (h) Outcomes or provisions produced are consistent with those specified in any Appropriation Act;
 - (i) Relevant government policies and legislation are being complied with;

- (j) All expenditure is charged against the relevant allocation appropriated by the National Assembly; and
 - (k) The accounts and records have been properly kept.
4. 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 private auditors, and where I do not approve the audited financial statements of a statutory body, shall commence an independent audit of the statutory body within thirty days of rejecting the private audit report.
 5. 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 public money or public resources which in my opinion justifies further investigations.
 6. In fulfilling my duties, powers and responsibilities lawfully conferred on me under Section 7 (1) of the Public Audit Act, I am required and any person authorized by me to:—
 - (a) Have full access at all reasonable times to all documents, books and accounts, public funds, public securities, government contracts, and books and accounts relating thereof and subject to audit, and to any place where they are kept;
 - (b) Request any person to supply any information or answer any questions relating to documents, books and accounts, money, or operations subject to audit and examination by me;
 - (c) Give notice in writing, requiring any person having possession or control of any documents, books and accounts subject to audit and examination by my office to deliver all or any of them at a time and place and to such person specified in the notice;
 - (d) Inspect, measure or test any real or personal property to which any Government contract relates; and
 - (e) Enter any land, building, or place, other than a dwelling house, where a government contract is being performed that is subject to audit and examination by me.

Submission of Financial Statements

7. Section 83 (1) of the Public Finance Management Act requires the Secretary to the Treasury to prepare, sign and transmit to me the Consolidated Statements of Accounts within a period of four (4) months but not later than 31st October after the closure of each 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 balance sheet date of the reporting period;
- (c) A statement of Cash Flows showing the cash receipts and cash payments during the reporting period, and the cash balance as at balance sheet date of the reporting period;
- (d) A statement of Cash Balance showing breakdown of the balances held by type of holding;
- (e) A statement of Statutory Expenditure showing details of domestic debt servicing, external debt servicing, statutory remuneration and other material items of expenditure;
- (f) A Statement of Investments 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 debt 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 (if applicable);
- (h) A Statement of Ex-Gratia Payments approved under the provisions of the 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;
- (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.

Controlling Officers' Responsibility

8. In terms of Section 10 of the Public Finance Management Act, it is the Controlling Officers' responsibility to maintain proper financial management systems. This involves keeping appropriate financial records, and where applicable, following generally accepted accounting principles. The responsibilities of management also include ensuring that:—
 - (a) Public funds are only used to the extent, and for the purpose intended by the National Assembly;

- (b) All necessary precautions are taken to safeguard the collection and custody of public money;
- (c) All necessary precautions are taken to safeguard public resources;
- (d) All expenditure is incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste;
- (e) There is no over-expenditure or over-commitment of funds and a review is undertaken each month to ensure that there is no such over-expenditure or overcommitment; and
- (f) The collection of public moneys is according to approved plans and the estimates.

The controlling officers prepared financial statements for their ministries starting from 2011/12 financial year and submitted them for audit before they were consolidated by the Accountant General.

Scope of Audit

9. The audit of public accounts is performed in accordance with International Standards of Supreme Audit Institutions (ISSAIs). The audit is intended to provide an overall assurance of the general accuracy and propriety of Government's financial and accounting transactions. Although the audit is conducted in accordance with International Standards of Supreme Audit Institutions (ISSAI's), it does not guarantee absolute accuracy of the accounts or detection of every error, financial irregularities and fraud.

The Public Audit Act empowers me to use discretion and make tests in any particular case. The extent of audit examinations varied depending on the strength of internal control systems in operation and the nature of transactions involved. Substantive tests were made on selected areas of public accounts in order to form an opinion as to whether or not public money is expended economically, and in conformity with the wishes of the National Assembly. The audits have not been limited to the accounts for the year ended 30th June, 2012, but have where necessary extended into the subsequent year.

Audit Methodology

10. The core objective of the external audit function is to ensure accountability of public funds. To discharge this responsibility my approach to audit involves the following:—
 - (a) Planning the audits to obtain relevant information in the most efficient manner and to determine the audit procedures employed;
 - (b) Evaluation and testing of the accounting and internal control systems;
 - (c) Testing of controls to ensure that procedures have been applied and that

the relevant laws and regulations have been complied with, including the test for validity, completeness and accuracy of the accounts; and

- (d) Reporting the audit findings based on the audit procedures performed and evidence gathered.

Responding to Audit Reports

- 11 Section 14 (1) of the Public Audit Act requires a Controlling Officer, Head of an agency, statutory body or other affected person in respect of any matters that may relate to an audit, to respond to the Auditor General within fourteen (14) days of receiving the report.

Despite some progress in responding to audit queries, and reports, a significant number of Controlling Officers are unable to respond as required by the Public Audit Act. The value of audit recommendations and prompt and timely feedback from management cannot be overemphasized.

On many occasions Controlling Officers have been reminded of their responsibilities for the control and management of public funds entrusted to their care and their ultimate accountability to the National Assembly.

Reporting Procedure

- 12. In the course of preparing this report, each Controlling Officer was sent an appropriate draft paragraph for his/her comments and confirmation of the correctness of the facts presented. Where comments were received in good time and happened to be materially satisfactory, the affected draft paragraphs were amended accordingly or dropped altogether. In cases where it was not possible for Controlling Officers to provide comments in the time available, the draft paragraphs formed part of this report without amendment.

This report is therefore submitted in accordance with the requirements of Section 184(2) of the Constitution of the Republic of Malawi and in terms of Section 15 of the Public Audit Act.

Certificate on the Accounts

- 13. I am required to express an opinion on the public accounts based on my audit. My audit opinion on the public accounts for the financial year ended 30th June, 2012, is qualified based on the following material matters that affected its true and fair view:
 - (a) Integrated Financial Management and Information System (Central Payment System) had significant control weaknesses and these led to suspected loss of MK88.98 billion which remains an audit query until the verification process is done to clear it.
 - (b) Security arrangements for government cheque books in the Department of Accountant General were seriously weak and preparation of bank

reconciliations was very much in arrears, resulting in loss of MK243,885,523 through fraudulent processing and cashing of cheques; and

- (c) Various ministries, departments and agencies (MDAs) applying procurement methods which overlook observance of well established procurement systems and procedures and best practices resulting in accumulation of expenditure arrears totaling MK72 billion as at 30th June, 2012.

The audit opinion is presented separately in Volume I of the Consolidated Annual Appropriation Accounts for the year ended 30th June, 2012.

PART II

OVERALL BUDGETARY PERFORMANCE 2011/2012

Revenue

14. Total revenue collected during the period ended 30th June, 2012 was K243.6 billion reflecting a decrease of K12.2 billion over the 2010/11 amount of K255.4 Billion. The main sources of revenue were Tax Revenue K193.1 billion, Non-tax Revenue K26 billion and Dedicated Grants K24.5 billion.

The revenue collection for 2011/12 was less than the revised amount of K245.1 billion by K1.5 billion. In the main, the under-collection was attributed to Dedicated Grants and Non-tax revenue which registered under-collections of K4.7 billion, K887.8 million respectively. The trend of revenue collection for the past four years is tabulated as follows:

<u>Year</u>	<u>Provision K'000</u>	<u>Actual Collection K'000</u>	<u>Over (under)- collection K'000</u>
2008/2009	203,131,400	194,107,524	(9,023,876)
2009/2010	240,919,510	231,942,516	(8,976,994)
2010/2011	299,836,118	255,391,815	(44,444,303)
2011/2012	245,070,578	243,587,354	(1,483,224)

Expenditure

15. During the year under review, total expenditure charged to the Consolidated Fund was K238.9 billion representing an increase in expenditure of K7.6 billion when compared to the total expenditure of K231 billion for 2010/11. The overall picture of the voted expenditure was an over expenditure of K8.4 billion which compared unfavourably to an over expenditure of K7.1 billion for 2010/11.

Consolidated Revenue Account

16. The consolidated revenue account had slightly deteriorated in performance during the year under review since the cumulative deficit of K97.4 billion as at 30th June, 2011 had increased to K125.9 billion as at 30th June, 2012 arrived at as follows:

	<u>K'000</u>
Balance as at 1st July, 2011	97,380,945 DR
Add: Revenue for the year	<u>243,587,354 CR</u>
Sub-total	146,206,409 CR
Less : Expenditure for the year	<u>238,866,153 DR</u>
: Transfer to Development Part II	<u>33,207,931 DR</u>
Cumulative Deficit as at 30th June, 2012	<u>125,867,675 DR</u>

The planned recurrent deficit before grants for the year under review was K14.6 billion. The actual Revenue Account out-turns as at 30th June, 2012 was a deficit of K28.5 billion.

The annual deficit could largely be attributed to delays of inflows of donor budget support.

Recurrent Budget Performance for the past four years is as follows:—

	<u>2008/2009</u>	<u>2009/2010</u>	<u>2010/2011</u>	<u>2011/2012</u>
	<u>K'000</u>	<u>K'000</u>	<u>K'000</u>	<u>K'000</u>
Actual Revenue	194,107,524	231,942,516	255,391,815	243,587,354
Less : Actual Expenditure:	189,555,933	196,552,786	231,010,603	238,866,153
: Transfer to Dev. Pt II	—	—	24,382,029	33,207,931
Surplus/(Deficit)	<u>4,548,591</u>	<u>35,389,730</u>	<u>(817)</u>	<u>(28,486,730)</u>

Details of actual receipts and payments are presented in statements 3 and 4 of the Appropriation Accounts produced by the Accountant General.

Consolidated Development Account

17. The total expenditure charged to Development Account for the year ended 30th June, 2012 amounted to K47.2 billion reflecting an increase of K5.6 billion over the previous year's expenditure of K41.6 billion.

A comparative analysis of expenditure out-turn of the Development Account for the past four years is as follows:

	<u>2008/2009</u>	<u>2009/2010</u>	<u>2010/2011</u>	<u>2011/2012</u>
	<u>K'000</u>	<u>K'000</u>	<u>K'000</u>	<u>K'000</u>
Revised Estimates	57,857,238	71,761,356	73,999,998	70,174,568
Less : Actual Expenditure:	<u>36,118,217</u>	<u>45,578,133</u>	<u>41,593,475</u>	<u>47,226,985</u>
	<u>23,541,465</u>	<u>21,739,021</u>	<u>26,183,223</u>	<u>22,947,583</u>

Three (3) votes on Development Account exceeded their Treasury Authorized Provisions by K2.5 billion during the period under review as compared to previous financial year which had no overspent vote. The votes which have exceeded their Treasury Authorised Provisions are as follows:

<u>Vote</u>	<u>Ministry/Department</u>	<u>Excess Expenditure K'000</u>
050	State Residences	143,641
130	Lands, Housing	56,680
420	National Roads Authority	2,344,803

Thirty two (32) votes recorded under expenditures of K25.5 billion. The largest unspent balances of K4.7 billion, K4.2 billion, K3 billion, K2.8 billion, K1.8 billion, K1.7 billion and K1.2 billion were recorded against vote 190—Agriculture and Food Security, 210—Water Development, 250—Education, 120—Local Government & Rural Development, 272—Local Development Fund, 390—Trade & Private Sector Development and Development Planning & Cooperation respectively.

The unspent balances on the Development votes could be a reflection of projects which were not implemented in full due to inadequate counterpart funding, or delays in aid inflows.

The overall state of affairs of the Development Fund as at 30th June, 2012 was accumulative surplus of K11.6 billion, registering a decrease of K643.5 million from a surplus of K12.3 billion recorded at the end of the 2010/11 financial year. Details are as follows:

	<u>K'000</u>
Receipts during the year	46,583,472 CR
<i>Less:</i> Payments	47,226,985 DR
Surplus/(Deficit) for the year	643,513 DR
<i>Add:</i> Opening balance	12,292,872 CR
	<u>11,649,359 CR</u>

Consolidated Fund

Financing of the Deficit

18. The Budget Statement for 2011/12 financial year envisaged a surplus of K8.5 billion on the Revenue Account while the Development Budget was expected to break-even at K69 billion.

During the year under review, the Recurrent Revenue Account collected K243.6 billion while the Recurrent Expenditure was K238.9 billion and K33.2 billion was transferred to Development Account Part II resulting into a deficit of K28.5 billion.

The Development Account realized K46.6 billion registering an increase of K2.5 billion when compared to K44.1 billion in 2010/2011 financial years.

The combined net cumulative position of the Recurrent and Development Accounts for the past four years is as follows:

<u><i>Year</i></u>	<u><i>Combined (Deficit)/Surplus K'000</i></u>
2008/09	(105,603,817)
2009/10	(72,239,001)
2010/11	(84,686,073)
2011/12	(114,218,316)

PART III

MINISTRIES, DEPARTMENTS AND AGENCIES

Office of the President and Cabinet

National College of Information and Technology (NACIT)

19. An audit inspection of financial and other records of National College of Information and Technology was completed in May, 2011. The audit disclosed some weaknesses in financial control which were communicated to the Controlling Officer in my report dated 19th July, 2012. The report highlighted the following observations:

(a) Failure to Produce Financial Statements

The Public Finance Management Act among other things requires the Controlling Officer or any officer delegated the powers of a Controlling Officer to prepare and submit financial statements at the end of every financial year for audit purposes.

An examination of financial and stores records revealed that the Institution did not produce financial statements for the financial years 2008/2009 and 2009/2010 for audit review as required by regulations. Consequently the inspecting auditors could not form an opinion on the financial position of the NACIT for the two financial years

(b) Failure to Maintain Fuel Register: K3,520,000.00

Treasury Instructions stipulate that all purchases and subsequent issues of fuel should be recorded in relevant fuel registers in order to enhance accountability.

An examination of payment vouchers disclosed that fuel which was purchased between July, 2008 and January, 2010 amounting to K3,520,000.00 was not recorded in a fuel register. Consequently, the audit review could not ascertain the disposal of the fuel in absence of any record.

(c) Failure to Produce Receipted Vouchers: K2,409,802.50

Treasury Instructions require that where a payment is made to pay several officers, each officer must sign on the payment voucher against his or her name to acknowledge receipt and where applicable, cash receipts must be attached to support the expenditure made.

An examination of payment vouchers raised between October, 2008 and January, 2010 disclosed some receipted vouchers amounting to K2,409,802.50 which were not produced for audit review. The accountability of the cash drawn could therefore not be established by the audit team.

Ministry of Finance

Department of Accountant General: IFMIS—Central Payment System

20. The Integrated Financial Management and Information System (IFMIS)—Central Payment System is being implemented by the Department of the Accountant General.

The system was designed to, among other things, enable the Government to monitor its annual budget performance and cash position. An audit review which was conducted between December 2011 and February 2012 had identified significant control weaknesses which enabled perpetrators to exploit it through collusion resulting in suspected huge financial mismanagement and losses of public funds.

The operating accounts using the Central Payment System are as follows:

<u>SITE</u>	<u>MINISTRIES/DEPARTMENTS</u>	<u>ACCOUNT NAME</u>	<u>ACCOUNT CODE</u>
Accountant General	All Ministries and Departments	ORT	2086
Accountant General	All Ministries and Departments	Deposits	2087
Accountant General	Accountant General Department	Statutory Expenditure	2088
Accountant General	All Ministries and Departments	Advances	2089
Accountant General	All Ministries and Departments	Development	2090
Malawi Police Hqrs	Malawi Police Service	ORT	2086
Headquarters	Malawi Defence Force	ORT	2086
Malawi Defence Force			
New State House State Residences		ORT	2086
New State House State Residences		Statutory Expenditure	2088

Objective and Challenges of Investigative Audit

21. The Interim Report was sent to the Secretary to the Treasury on the preliminary findings of an IFMIS investigative audit which was not yet concluded. The report recommends that further audit investigations should be carried out on various findings observed in the preliminary investigative audit.

The audit assignment faced challenges which at that material time adversely affected the appropriate conclusions and completion of the audit in the process the audit was abandoned. Some of the challenges faced were as follows:

- (a) Non-production of Bank Statements for the accounts operating under the independent sites of Malawi Police Service, Malawi Defence Force and State Residences;
- (b) Production of unreliable soft copy Bank Statements by Accountant General which were tampered with as some information was deleted for the main site accounts;

- (c) Non-production and poor filling of accounting records to be audited in some Ministries and Departments; and
- (d) Non-availability of some officials on time when they were required to assist the audit teams in providing relevant information at Ministries and Departments visited.

Despite the challenges mentioned above the investigative audit came up with preliminary findings on IFMIS operational control weakness in its operational processes. Thus the audit indicates that there is a very strong likelihood that the internal controls which were put in place within the system are not being implemented in full. The system therefore remains vulnerable to unauthorized operations being executed. Furthermore the investigations revealed that there were indeed suspected frauds involving a network of officers in the Accountant General's Department Malswitch, the Police and some commercial banks and vendors.

Below are preliminary findings based on the observations from the investigative audit.

Observed Weaknesses in Management of IFMIS-Central Payment System

22. The Central Payment System was technically and operationally controlled by the Treasury and the Accountant General. Technically, there appeared to have no challenges in terms of technical personnel and the machine operations.

However the following weaknesses were observed.

(a) Weaknesses in Operational Management Structure

The system's operators, which are the System's Administrator and Systems Users, were observed to have weaknesses in the implementation of the Central Payment System.

The major weaknesses observed were as follows

- The operators' attitude towards their work demonstrated non-compliance with the systems requirements and procedures.
- Less trained team was operating the system mostly on-job and those originally trained by Epicor were all moved out by management.
- The same was the situation at the Central payment Offices (Cheque Printing Offices) and the Main Accounts where vouchers were processed.
- Super rights users with the responsibility of Systems Administrator and access rights for operators in the Main Accounts and Central payment Offices was given to middle and lower management since those in top positions lacked knowledge and therefore failing their supervisory responsibility. Consequently, supervision was not effective.

- Treasury funding was being loaded into the system at the main and independent sites by the System's Administrator from Accountant General as opposed to previous arrangement which was done by Treasury officials.

Above observations clearly demonstrated that there was high risk of ineffective supervision and segregation of duties. This would likely be the fertile ground for abuse of the system for personal gains at the expense of essential service delivery. This may not easily be detected with ineffective supervisory role by senior management over its juniors manning the system.

(b) Lapses in internal checks and Control over System's operations by sharing passwords

The IFMIS-Central Payment System was designed to have strong internal checks and control mechanism. The systems in all sites were designed to limit authorized persons with adequate safeguards to deter malpractices.

The auditors observed that Access Rights for operators in the Main Accounts and Central Payment Offices (Cheque Printing Office) were being shared without any control. It was learnt that at times, when a user goes into the system, he/she could go away from the terminal for sometime without logging out of the system such that any other person could go into the system, process a transaction on access rights of the originally logged person. It was the same situation in the cheque printing offices where access rights were shared and the cheque signatories who were to institute supervisory checks were not conversant with the systems processes.

The risk is very pervasive such that it would encourage fraudulent activities to occur without exactly knowing who was responsible.

(c) CPS not yet connected to Banking system

The IFMIS-Central Payment System design was able to control expenditure within the budget up to the cost centre level. Based on the system control documentation no payment can be processed and passed if there are insufficient or no funds in the budget.

The major weakness observed was that the system had not yet been connected to the banking system and that cheque authorization was manually signed. Sometimes cheques could be processed on manually prepared vouchers and the payment was always honoured by banks. It was further observed that the Government arrangement of a consortium of three commercial banks to dispense Government cheques was without a control mechanism how to monitor it.

(d) Overriding CPS Payment Amount Limits per single cheque payment

When the system was being introduced in 2005, Government had in place specific accounts for individual Ministries/Departments with Credit Ceiling Authorities (CCA) which could limit the amount of payment by a single cheque. Contrary to the above the arrangement later was that a consortium of three commercial banks, namely, NBS, Standard Bank and Malawi Savings Bank (MSB) were the authorized banks to honour all Government cheques from any of their branches for any amount without any limit on behalf of the Reserve Bank of Malawi (RBM). A case for example, on Malawi Police Service account, cheque No 154424 dated 30/09/2010 was cashed for staff with an amount of MK500,000,000.00. The role of the RBM was simply to refund all what was disbursed by the commercial banks without control mechanism.

(e) Overriding CPS Budgetary Control Measures by Making Payments Outside Payment system

In the circumstance where payments are made outside the system, there was no expenditure control over public funds and the objectives of the Central Payment System were defeated. This conclusion was made after noting that at the Malawi Police Service independent site for instance, Treasury funding for 2009/10 fiscal year was around MK5 billion in line with the budget but the expenditure level as captured from payments records was in excess of MK14billion.

There was a risk that payments could be made in excess of the budget limit for a given fiscal period. There was also a risk that unauthorized payments could be processed by unscrupulous individuals and passed through the banks undetected.

(f) Failure to control cheques distribution and its usage

The cheque controls require that cheques should only be issued upon production of completed cheque pads by following serial numbering and this should be in sequential order as required by cash office procedures. The cheque pads were printed in South Africa and distributed by the RBM to Accountant General Central Payment Systems.

The auditors observed that there was lack of control in the manner in which the cheque pads were distributed. There was no control over cheque serial numbers as paid cheques were issued by the Central Payment Offices without following serial number order. At the Accountant General CPO, it was also observed that at times renumbering of cheques by the cash office staff was done without authority or valid reason.

(g) Lack of Bank Reconciliation and unreliable documentation

The current arrangement was that Accountant General should perform monthly bank reconciliation for each of the CPS accounts at Malawi Police Service, Malawi Defence Force, The New State House and Accountant General Sites. The Bank Reconciliation Unit of Accountant General was responsible for obtaining the Reserve Bank statements and reconciling them with the system's cashbooks from all the sites.

The auditors observed that, no bank reconciliation statements were produced for the period under review. A soft copy of the RBM bank statement for the headquarters site covering all Ministries/ Departments was produced to auditors. An examination of the statement revealed that a number of paid cheques were deleted from the statement. This manifested unscrupulous behavior by some officers within the system and therefore the statements in their custody could not be relied upon.

In absence of original bank statements, the audit team was unable to establish the exact amount paid out by banks from Government accounts for the period under review.

Efforts to obtain original bank statements have until now not been successful due to inadequate cooperation from Accountant General's office.

Substantial amount of public funds might have been lost due to negligence of duty and control weaknesses by management as explained in the various control weakness above.

**Observed Suspected Mismanaged or Loss of Public Funds
MK88,985,808,616.82 (Originally was MK92 Billion)**

23. Records made available to the auditors from various Ministries and Departments visited; showed a number of observations on irregularities involving specific financial transactions. There are indications that the public funds might have been mismanaged or lost originally amounting to MK92 billion now is MK88,985,808,616.82 after further reviews were carried out which showed that there was a casting error.

Below is a summary analysis of IFMIS-Central Payment System audit observations:

(a) Payment outside Central Payment System not recorded in CPS

<u>SITE</u>	<u>MINISTRY/DEPT</u>	<u>SOURCE DOCUMENT</u>	AMOUNT
			<u>INVOLVED MK</u>
AGD	Agriculture headquarters	Cheque Dispatch Register	74,693,368.87
AGD	Health Headquarters	Cheque Dispatch Register	263,111,732.95
AGD	Lands and Housing Hqrs	Payment Vouchers	34,484,400.00
AGD	Lands and Housing Hqrs	Cheque Dispatch Register	1,213,536,486.13
AGD	Labour Headquarters	Cheque Dispatch Register	55,730,607.77
AGD	Gender & Child welfare	Payment Vouchers	763,297,007.72
AGD	Disability	Payment Vouchers	835,647,092.21
AGD	Local Government	Payment Vouchers	2,197,833,282.65
MPS	Malawi Police Service	Cheque Dispatch Register	6,961,479,649.67
			<u>12,599,813,627.97</u>

(b) Payment Vouchers not produced for audit and therefore propriety not ascertained

<u>SITE</u>	<u>MINISTRY/DEPT</u>	<u>SOURCE DOCUMENT</u>	<u>AMOUNT INVOLVED MK</u>
AGD	Water Development Hqrs	CPS Cashbook	2,166,864,523.03
AGD	Agriculture headquarters	CPS Cashbook	22,436,696,270.24
AGD	Health Headquarters	CPS Cashbook	21,620,724,140.69
AGD	Lands and Housing Hqrs	Cheque Dispatch Register	1,213,536,486.13
AGD	Lands and Housing Hqrs	CPS Cashbook	679,922,739.78
AGD	Labour headquarters	Cheque Dispatch Register	55,730,607.77
AGD	Labour headquarters	CPS Cashbook	308,828,860.87
AGD	Gender & Child welfare	CPS Cashbook	171,138,262.94
AGD	Disability CPS	Cashbook	546,340,028.62
AGD	Local Government	CPS Cashbook	936,738,242.23
MPS	Malawi Police Service	Cashbook & Chq Register	6,885,924,784.08
			<u>57,022,444,946.38</u>

(c) Payments not supported with liquidation documents therefore funds not accounted for

AGD	Water Development Hqrs	Cashbook & Chq Register	10,616,799.32
AGD	Agriculture Headquarters	Cashbook & Chq Register	173,638,377.27
AGD	Health Headquarters	Cashbook & Chq Register	87,246,845.56
AGD	Lands and Housing Hqrs	Cashbook & Chq Register	29,762,247.27
AGD	Youth Headquarters	Cashbook & Chq Register	2,785,038.23
MPS	Malawi Police Service	Cashbook & Chq Register	3,326,681,185.50
			<u>3,630,730,493.15</u>

(d) Payment to Banks without beneficiaries details therefore funds not accounted for

Malawi Police Service	Cashbook (Chq Register)	2,872,359,510.63
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(e) Payments to Banks without beneficiaries details therefore value for money not obtained

MPS	Malawi Police Service	Payment Vouchers	6,339,963,395.81
AGD	Water Development Hqrs	Payment Vouchers	12,257,210.00
AGD	Agriculture Headquarters	Payment Vouchers	486,200,560.94
AGD	Health Headquarters	Payment Vouchers	288,304,364.45
MPS	Malawi Police Service	Payment Vouchers	4,980,595,254.20
			<u>5,767,357,389.59</u>

(g) Payments for fuel without evidence of delivery accountability not ascertained

AGD	Water Development Hqrs	Cashbook & Chq Register	2,500,000.00
AGD	Agriculture Headquarters	Cashbook & Chq Register	14,460,000.00
AGD	Health Headquarters	Cashbook & Chq Register	55,617,169.00
AGD	Youth Headquarters	Cashbook & Chq Register	2,072,080.00
MPS	Malawi Police Service	Cashbook & Chq Register	678,490,004.29
			<u>753,139,253.29</u>
Grand Total			<u>88,985,808,616.82</u>

Below is detailed analysis of each of the above observations

(a) Payments outside Central Payment System: MK 12,599,813,627.97

Ministries and Departments operating under the main site of Accountant General and the independent site of Malawi Police Service, recorded payments totalling MK12,599,813,627.97 which were made outside the system.

An examination of CPS cashbooks, payment vouchers and cheque dispatch registers at the Ministries and Departments visited revealed that a lot of payments were made outside the IFMIS-Central Payment System. Enquiries with the IFMIS Project management team at Accountant General disclosed that at times it was permitted to process payment outside the system especially when there was an emergency and technical failure of the system. In addition the level of the occurrence of the payments indicated that the transactions were done deliberately with an intention of avoiding the system.

(b) Payment vouchers not produced for audit: MK57,022,444,946.38

Ministries and Departments operating under the main site of Accountant General and the independent site of Malawi Police Service, did not produce payment vouchers for audit review. The amount involved was MK57,022,444,946.38.

An examination of CPS cashbooks and cheque dispatch registers at the Ministries and Departments visited disclosed that a number of payment vouchers were not produced for audit. Enquiries with management disclosed that poor filling was the cause of missing vouchers. However, with the existence of weak internal checks and controls in the processing of payments especially those outside CPS, there is a possibility that some cheques might have been issued without payment vouchers.

(c) Non Acquitted amount of MK3,630,730,493.15

Non acquitted sum of MK3,630,730,493.15 due to non availability of acquitted vouchers where individual payees' signatures were listed were not provided. An examination of CPS cashbooks, payment vouchers and cheque dispatch registers at the Ministries and Departments visited revealed that numerous payments were made to individuals on behalf of other people without the acquitted signature list of the payees. Enquiries with management provided no satisfactory explanation for failure to produce acquitted vouchers in order to account for the payments mentioned above.

(d) Payments to Banks without details of payee: MK2,872,359,510.63

An amount of MK2,872,359,510.63 was not supported with any details of payee and purpose of payments.

An examination of CPS cashbooks, payment vouchers and cheque dispatch registers at the Malawi Police Service revealed a number of payments made to various commercial banks without indicating details of the beneficiaries and the purpose of payment. No documentary evidence was produced to ascertain the propriety and accountability of the payments. Between July,2010 and September,2011, the above total amount was paid to twelve commercial banks without details and purpose.

(e) Payments for procurement without IPC authority: MK6,339,963,395.81

A total of MK6,339,963,395.81 was made between July,2010 and September,2011 without IPC authority.

An examination of CPS cashbooks, payment vouchers and cheque dispatch registers at the Malawi Police Service revealed a number of payments made to various suppliers for purchases of goods without following procurement regulations and procedures. In the circumstance, value for money was not obtained.

(f) Payments to Suppliers for goods without delivery evidence: MK5,767,357,389.59

An amount of MK5,767,357,389.59 was paid and was not supported by documentary evidence that goods and services were delivered.

An examination of CPS cashbooks, payment vouchers and cheque dispatch registers at the Ministries and Departments visited revealed that numerous payments were made to various suppliers for the supply of goods which had no documentary evidence that the goods were indeed delivered. Audit verification also confirmed that the goods paid for were not recorded in the stores ledgers at the intended destination.

(g) Payments for fuel without delivery evidence: MK753,139,253.29

An amount of MK753,139,253.29 was paid for fuel but there was no evidence of delivery of the fuel. An examination of CPS cashbooks, payment vouchers and cheque dispatch registers at the Ministries and Departments visited revealed that numerous payments were made to various fuel suppliers for the supply of fuel which had no documentary evidence that the fuel was delivered. Audit verification also confirmed that the fuel paid for was not recorded in the receiving fuel registers at the intended destination. Enquiries with management provided no satisfactory explanation for non-production of documentary evidence for delivery of fuel procured.

Ministries and Departments yet to be Audited

24. Due to some limitations a number of ministries and departments were not audited as a result the audit progress was automatically suspended. Below is a list of ministries and departments yet to be audited:

<u>MINISTRY/DEPARTMENT</u>	<u>STATUS OF PROGRESS</u>	<u>REMARKS</u>
Office of the President & Cabinet	Audit team turned	To be called back
Office of the Vice President	Not yet audited	Logistic problems
Ministry of Information	Progress suspended	Logistic problems
Ministry of Defence	Reporting in progress	
Malawi Defence Force	Not yet audited	Logistic problems
Ministry of Home Affairs	Not yet audited	Logistic problems
Ministry of Transport and Public Works	Not yet audited	Logistic problems
Ministry of Energy and Natural Resources	Not yet audited	Logistic problems
Ministry of Justice	Not yet audited	Logistic problems
National Assembly	Not yet audited	Logistic problems
Department of Human Resource & Dev.	Not yet audited	Logistic problems
Ministry of Foreign Affairs	Not yet audited	Logistic problems
National Local Government Finance Committee	Not yet audited	Logistic problems
Ministry of Finance(Treasury & Accountant General)	Not yet audited	Planned to be the last audited

The above observed suspected mismanaged or loss of funds remain an audit query until a full investigation is carried and resolved. The Secretary to the Treasury and Accountant General should be committed to provide resources and documentation for the investigative audit to be carried out.

Government Outstanding Commitments (Arrears) As At 30th June, 2012: MK71,736,028,008

25. The Public Finance Management Act. Section 10 (f) provides that each controlling officer is responsible for ensuring that there is no over-expenditure or over-commitment of funds in relation to his/her ministry.

An examination of the consolidated Annual Appropriation Account for the year ended 30th June, 2012, disclosed that Ministries, Departments and Agencies accumulated expenditure arrears totaling MK72 billion. This contravened the above quoted legal provision and defeated the objectives of the Cash Budget System being implemented by Government.

It was observed that some of the factors that led to the accumulation of arrears were as follows:

(a) Parastatals

There were outstanding financial obligations (loans) which were guaranteed by Government before conducting a situation analysis of the parastatal to determine its capacity to meet the repayments on the due dates. For instance, the Smallholder Farmers Fertilizer Revolving Fund accumulated arrears of K16,227,352,768.00 as at 30th June, 2012, which included outstanding loan repayments on loans that were guaranteed by Government and accrued interest of K9,219,613,55.00 on the outstanding amounts. No situation analysis was conducted to establish the financial capacity of the organization.

(b) Ministries, Departments and Agencies (MDAs)

It was noted that most of the MDAs with outstanding arrears were applying procurement methods which overlook the observance of well established procurement systems and procedures and best practices. For instance, the Malawi Police Service accumulated arrears totaling K12,767,242,605.00 as at 30th June, 2012, arising from management failure to follow proper procurement procedures in the acquisition of goods. There was no evidence of Internal Procurement Committee (IPC) authority or availability of funds in the budget before making the purchases. Most of the procurements were made through local purchase orders and there was no evidence to show that authority was obtained from the Secretary to the Treasury to spend above the approved budget.

The table below has the details of accumulated arrears which were submitted to government for settlement:—

<u>INSTITUTION</u>	<u>AMOUNT IN MK</u>
Smallholder Farmers Fertilizer Revolving Fund	16,227,532,768.00
Air Malawi	5,000,000,000.00
Malawi Broadcasting Corporation (MBC)	5,000,000,000.00
Agriculture Dev. & Marketing Corporation (ADMARC)	4,940,009,999.00
National Food Reserve Agency (NFRA)	2,241,743,651.00
Malawi Rural Finance Company (MRFC)	1,539,715,491.00
Old Malawi Posts and Communications	752,539,840.00
DEMAT/MEDI/SEDOM	677,000,000.00
Mzuzu University	590,000,000.00
Malawi Housing Corporation (MHC)	2,154,865,384.00
Total	<u>39,123,407,133.00</u>
<u>Procurement of Goods and Services</u>	
Malawi Police Service	10,000,000,000.00
Road Sector Projects	8,272,341,422.00
Central Medical Stores	2,000,000,000.00
Malawi Defence Force	1,291,000,000.00
Malawi Prison Service	1,300,000,000.00
Immigration Department	1,200,000,000.00
Malawi Electoral Commission	407,000,000.00
Ministry of Lands (Rentals)	1,392,314,072.00
Office of the President and Cabinet (OPC)	590,000,000.00
Total	<u>26,452,655,494.00</u>

Pensions, Contributions, Salaries, Utilities and Subscriptions

<u>INSTITUTION</u>	<u>AMOUNT IN MK</u>
Pensions Arrears (Ministry of Finance)	3,700,000,000
Arrears for Utilities	600,000,000
Arrears for Subscriptions	620,000,000
Salary Arrears (Ministry of Education)	612,000,000
Total	<u>5,532,000,000</u>
Compensations for Court Cases and Land Purchases for Projects	<u>627,965,381</u>
Total	<u>627,965,381</u>
Grand Total	<u>71,736,028,008</u>

Agriculture and Food Security**Agriculture Development Project-Support Project (ADP-SP)**

26. An audit inspection of financial statements of Agriculture Development Support Project for the year ended 30th June, 2011 was completed in December, 2011. The audit disclosed some weaknesses in financial control which were communicated to the Controlling officer in my report issued in December, 2011. The report highlighted the following observations:

(a) Fuel purchases not recorded in the register: MK770,000.00

Treasury Instructions state among other things that stores represent cash in other form and the same care and custody should be applied as is applied to cash accounts.

An examination of fuel records disclosed that fuel worth MK770,000.00 purchased between February and June, 2011 was not recorded in the fuel register. In the absence of the records, the accountability of the fuel could therefore not be ascertained.

(b) Payments without supporting documents: MK315,000.00

Treasury Instructions require that payment vouchers must be accompanied by original supporting documents firmly attached to the vouchers before payment is made to afford independent checks.

An examination of payment transactions disclosed that payment vouchers amounting to MK315, 000.00 made between April and June, 2011 did not have supporting documents. As a result the validity of the expenditure could not be ascertained.

Fisheries Research Unit-Zomba

27. An audit inspection of financial and stores records of Fisheries Research Unit in Zomba was completed in May, 2012. The audit review disclosed weaknesses in financial control which were communicated to the Controlling officer in my report issued in June, 2012. The report highlighted the following observations:

(a) Disallowed expenditures: K3,776,527.65

Research Sub-Fund Order (1999) stipulates that money realized under the order should only be used for the maintenance, repair and operations of RV Ndunduma Research Vessel.

An examination of payment vouchers for the period between July, 2010 and September, 2011 disclosed that the entity incurred expenditures amounting to K3,776,527.65 that were not in line with the provisions of the Fisheries Research Sub-Fund order. The disallowed expenditures included the maintenance of workshop, a Guest House at Cape Maclear and the purchase of DSTV complete set contrary to the above Sub Fund Order.

(b) Subsistence allowances not signed for: K301,750.00

Treasury Instructions require that allowances must be signed for by the recipients to afford independent checks.

An examination of receipted vouchers for the period from July, 2010 to January, 2011 revealed that recipients did not sign for subsistence allowances amounting to K301,750.00. It was therefore difficult for the audit team to ascertain whether the allowances were paid to the intended beneficiaries.

(c) Fuel not recorded in the fuel register: K8,937,443.49

The financial control with respect to fuel is that purchases and subsequent issues of all fuel must be recorded in the fuel register to enhance transparency and accountability of the fuel usage.

An examination of the fuel register, pump load slips and payment vouchers for the period July, 2010 to July, 2011 revealed that fuel valued at K8,937,443.49 was not recorded in the fuel register. It was therefore difficult for the inspecting auditors to ascertain the accountability of the fuel in absence of any disposal record.

Mzuzu Fish Farm

28. An audit inspection of the financial and other records of Mzuzu Fish Farm was completed in August, 2011. The audit review disclosed some weaknesses in financial control, which were communicated to the Controlling officer in my report issued in February, 2012. The report highlighted the following observations:

Fuel Purchases Not Recorded in Fuel Register: K463,361 .00

Treasury Instructions state that where consumable stores are received in bulk for subsequent issue in small lots, the transactions must be recorded in the consumable stores ledger.

An examination of payment vouchers and fuel register revealed that during 2010/2011 financial year, the office purchased fuel amounting to K463,361.00 which was not recorded in the fuel register. As a result, the accountability of the fuel could not be ascertained.

Mzuzu Agriculture Development Division

29. An audit inspection of the financial and other records of Mzuzu ADD was completed in May, 2012. The audit review disclosed weaknesses in financial control, which were communicated to the Controlling officer in my report dated 22nd August, 2012. The report highlighted the following observations:—

(a) Fuel Not Recorded in Fuel Register: K2,095,290.22

Treasury Instructions state inter alia that where consumable stores are received in bulk for subsequent issues in small lots, the transactions must be recorded in the consumable stores ledger.

An examination of payment vouchers, fuel register and log books revealed that fuel amounting to K2,095,290.22 was neither recorded in the fuel register nor traced in the vehicles' logbooks. As a result, the accountability of the fuel could not be ascertained.

(b) Payment Vouchers Without Supporting Documents: K3,587,281.44

Treasury Instructions require payment vouchers to have supporting documents to afford independent checks.

An examination of payment vouchers disclosed that vouchers amounting to K3,587,281.44 for the period under review were not supported by documents. Consequently, it was difficult for the audit team to ascertain whether the expenditure was valid and a proper charge to public funds.

(c) Duplication on Payment of Subsistence Allowances: K270,500.00

An examination of payment vouchers disclosed that the office duplicated payment of subsistence allowances amounting to K270,500.00 to some members of staff. The office did not provide satisfactory explanation as to whether the amount was recovered from the officers concerned despite being advised to recover the duplicated allowances from the officers concerned.

(d) Payment of Subsistence Allowances for Activities Not Undertaken: K1,875,600.00

Treasury Instructions require payment of subsistence allowances to officers who spent nights away from their duty stations.

An examination of payment vouchers disclosed that between October, 2010 and June, 2011, some officers were paid subsistence allowances

amounting to K1,875,600.00 for activities that never took place and there was no evidence to show that the officers spent nights away from their duty station.

(e) Rentals not deducted: K7,059,000.00

An examination of records in respect of revenue for the period under audit disclosed that rentals amounting to K7,059,000 .00 were not deducted from employees' salaries for a period of over five years although the employees were occupying institutional houses.

Ministry of Gender, Children and Social Welfare

Ministry Headquarters

30. An audit inspection of the Ministry of Gender, Children and Social Welfare Headquarters was completed in March, 2012. The audit review disclosed some weaknesses in financial control which were communicated to the Controlling officer in my main report dated 13th March, 2012, and thereafter a supplementary report on Social Services dated 1st June, 2012. The reports highlighted the following observations:

(a) Stores Items Not Recorded In The Stores Ledger: K16,199,869.45

An examination of stores records for the period September, 2010 to April, 2011 disclosed that purchases of stores items amounting to K16, 199, 869.45 were not recorded in stores ledger contrary to Treasury Instructions. It was therefore difficult for the audit team to ascertain the accountability of the stores items in the absence of any disposal record.

(b) Fuel Purchases Not Recorded In The Register: K2,777,380.00

An examination of fuel records disclosed that fuel valued at K2,777,380.00 purchased between June, 2010 and May, 2011 was not recorded in the fuel register. Consequently the inspecting auditors were unable to ascertain the disposal of the fuel in the absence of any disposal record.

(c) Allowances Not Signed For By The Recipients: K5,092,626.00

Treasury Instructions require that where a cheque is drawn to pay several officers, each payee (officer) must sign on the payment voucher against his/her name to enhance transparency and accountability.

An examination of payment vouchers for the period between September and December 2010 disclosed that cash amounting to K5,092,626.00 which was drawn to pay several officers, using receipted vouchers did not have signatures of the payees.

(d) Overpayment On The Purchases of Motor Vehicle Tyres: K549,597.17

An examination of payment vouchers along with related invoices disclosed laxity by the Ministry to scrutinize the supporting invoices before payment was made. It was noted that Viscocity, a supplier of Motor vehicle tyres was overpaid by K549,597.17 through payment voucher No 1925 dated 5th September 2011. The payment voucher had an amount of K1,018,509.67 while the related proforma invoice had an amount of K468,912.50 resulting in an excess payment of K549,597.17. There was no evidence to show that the amount was recovered from the supplier or a credit note obtained thereof.

Social Services

(a) Irregular Charge To The Social Cash Transfer Account: K4,694,687.88

An examination of expenditure records for 2010/2011 financial year revealed that the Ministry charged a sum of K4, 694,687.88 against the Social Cash Transfer account for activities other than the programme's core activities.

One part of the irregular charge was in respect of funds loaned to officers; while the other part was for allowances and other activities for Magomero Community Development College. There was no evidence to show that the amount had been reimbursed to the account as at the date of audit.

(b) Payments Not Supported By Expenditure Returns: K22,684,483.00

An examination of financial records for the period January to June 2011 disclosed that monitoring of expenditure on funds sub-warranted to various district councils in respect of social cash transfers was not effective. It was observed that funds amounting to K22,684,483.00 claimed to have been disbursed to beneficiaries during the stated period were not supported with expenditure returns or reports from the Councils to show how the funds were liquidated.

(c) Failure to Produce Receipted Vouchers For Audit Review: K3,854,815.00

It was noted that on 20th January 2011, the Ministry drew funds in respect of subsistence allowances for the social cash transfer programme activities in various implementing districts. The Ministry, however, did not produce receipted vouchers amounting to K3,854,815.00 for audit review. Consequently, it was difficult for the audit team to ascertain the accountability of the funds which were drawn.

(d) Fuel Not Recorded In The Fuel Register: K2,276,098.57

A review of fuel records disclosed that between January and June, 2011 fuel purchases amounting to K2,276,098.57 were not recorded in the fuel register. Consequently the inspecting auditors were unable to ascertain the disposal of the fuel in the absence of any disposal record.

Salima District Council

(a) Failure To Produce Supporting Documents For Audit Review: K491,327.53

An examination of expenditure records for the period June to August, 2011 disclosed that the Council spent a sum of K491,327.53 for fuel and allowances without providing supporting documents to show how the funds were utilised. It was therefore difficult for the inspecting auditors to ascertain whether the expenditure made was a correct charge to public funds.

(b) Misallocation of Funds: K3,000,000.00

It was noted that funds amounting to K3, 000,000.00 were used to cater for other activities at the District Agriculture Development Office (DADO) instead of the Social Cash Transfer Programme activities. As at the date of audit no reimbursement had been made to the Social Cash Transfer Programme Account.

Chitipa District Council

(a) Failure To Account For Monthly Transfers: K390, 000.00

Chitipa District Council received a sum of K390,000.00 in June 2011 from the Malawi Government to cater for Social Cash Transfer Programme activities. The office was supposed to record the utilization of the funds in a cash book.

It was however noted that Chitipa District Council did not maintain any documentation in form of a cash book to show the utilization of the funds amounting to K390,0000.00 which were received.

In the absence of such documentation, it was difficult for the audit team to ascertain the accountability of the funds in question.

(b) Failure To Account For Fuel Purchases: K508,350.00

It was observed that Chitipa District Council did not maintain any record of fuel procured between May and June 2011. Fuel worth K508, 350.00 was not recorded in the register. Consequently, it could not be established how this fuel was accounted for.

(c) Stores Items Not Recorded In The Ledger: K251,000.00

An examination of stores transactions disclosed that Chitipa District Council did not maintain a stores ledger to record stores items procured for Social Cash Transfer Programme activities in the months of May and June 2011. This is contrary to Treasury Instructions which among other things, require that a stores ledger should be opened and maintained for the purposes of recording receipts and issues of all stores.

Consequently stores items amounting to K251,000.00 were not recorded in the ledger, making it difficult for the inspecting auditors to ascertain the disposal of the items.

Ministry of Transport and Public Works

Department of Civil Aviation

31. An audit inspection of financial and other records of the Department of Civil Aviation was completed in February, 2012. The audit disclosed weaknesses in financial controls which were communicated to the Controlling officer in my report issued in July 2012.

The report highlighted the following observation:

(a) Failure To Collect Revenue: K37,777,732.47

An examination of invoices sent to various airlines revealed that revenue amounting to K37,777,732.47 was not collected. Further inquiry with management disclosed lack of debtors' reconciliation and failure to issue general receipts to some debtors after payment. Consequently the inspecting auditors were unable to satisfy themselves as to whether the revenue was collected as alleged by management in the absence of records to substantiate the correction of the amount.

Ministry of Irrigation and Water Development

National Water Development Programme II-World Bank-IDA

32. An audit inspection of the financial and stores records of National Water Development Programme II was completed in October, 2011. The audit review disclosed weaknesses in financial control which were communicated to the Controlling officer in my report issued in October 2011. The report highlighted the following observation:

(a) Project Funds Used For Unrelated Activities:K424,960.00

An examination of payment vouchers disclosed that project funds amounting to K424,960.00 were used to procure consumable stores items which were not related to the project activities. The items were paid through cheque numbers 2158 and 2161 dated 23 July, and 27 July, 2010 respectively.

As at the time of audit, the Ministry of Irrigation and Water Development had not yet refunded the amount to the project.

Ministry of Environment and Climate Change Management

Regional Forestry Office—Centre

33. An audit inspection of the Regional Forestry Office (Centre) was completed in March, 2012. The audit review disclosed some weaknesses in financial control which were communicated to the Controlling officer in my report dated 29th May, 2012. The report highlighted the following observations:

(a) Fuel Purchases Not Recorded In The Fuel Register: K2,078,556.00

Treasury Instructions require that fuel purchases should be properly recorded in the fuel register before issuing to the vehicles.

An examination of fuel records disclosed that fuel valued at K2,078,556.00 purchased between July, 2010 and June, 2011 was not recorded in the fuel register. It was therefore difficult for inspecting auditors to ascertain whether all fuel purchased was used for the intended purposes.

(b) Fuel Not Accounted For: K710,500.00.00

An examination of the fuel register and log books disclosed that fuel amounting to K710,500.00 issued to various sections between 25th July, 2010 and 9th June, 2011 was not accounted for. It was further noted that the fuel was not recorded in the log books and no receipts were available to confirm that the fuel was used for the intended purposes.

Regional Forestry Office—North

34. An audit inspection of the financial and other records of Regional Forestry Office (North) was completed in May, 2012. The audit review disclosed weaknesses in financial control, which were communicated to the Controlling officer in my report dated 11th October, 2012. The report highlighted the following observations:—

(a) Fuel Not Recorded In Fuel Register: K1,009,667.00

Treasury Instructions state that where consumable stores are received in bulk for subsequent issues in small lots, the transactions must be recorded in the consumable stores ledger.

An examination of payment vouchers, fuel registers and motor vehicles' log books revealed that fuel amounting to K1,009,667.00 was neither recorded in the fuel register nor traced in the vehicles' logbooks. As a result, the accountability of the fuel could not be ascertained.

(b) Payment Vouchers Without Supporting Documents: K 953,837.78

Treasury Instructions require payment vouchers to have supporting documents to afford independent checks.

An examination of payment vouchers disclosed that payment vouchers amounting to K953,837.78 were not supported by documentation. Consequently, it was difficult for the audit team to ascertain whether the expenditure was valid and a proper charge to public funds.

Ministry of Home Affairs

Malawi Prisons Headquarters

35. An audit inspection of financial and other records of Malawi Prisons Headquarters was completed in October, 2011. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 20th June, 2012. The report highlighted the following observations:

(a) Fuel Purchases Not Recorded In The Fuel Register: K1,250,000.00

Treasury Instructions stipulate that fuel must be properly accounted for through the maintenance of relevant books of accounts such as fuel registers and motor vehicle log books.

An examination of payment vouchers and fuel register revealed that fuel amounting to K1,250,000.00 purchased between October, 2010 and March, 2011 was not recorded in the fuel register. As such the auditors could not establish the accountability of the fuel in the absence of any disposal record.

(b) Payment Vouchers Without Supporting Documents: K1,400,000.00

Treasury instructions require that payment vouchers should be properly supported with original attachments to afford independent checks.

An examination of payment vouchers against the related supporting documents for the financial year 2009/2010, disclosed that payment voucher amounting to K1,400,000.00 dated 28th August 2009, for the purchase of drugs and payable to Unichem 2005 had no supporting documents.

The validity of the payment could therefore not be ascertained in the absence of supporting documents.

Rumphi Police Station

36. An audit inspection of the financial and other records of Rumphi Police Station was completed in March, 2012. The audit review disclosed weaknesses in financial control which were communicated to the Controlling officer in my report issued in June, 2012.

The report highlighted the following observation:—

- (a) **Payment Vouchers Without Supporting Documents: K480,500.00**
Treasury Instructions require payment vouchers to be fully supported by original invoices, cash sales and other related documents, which must be firmly attached to the payment vouchers in order to afford independent checks.

An examination of payment vouchers along with the related attachments disclosed that a sum of K480,500.00 was paid through payment vouchers that did not have supporting documents. Consequently, it was difficult for the inspecting auditors to ascertain whether the expenditure in question was a proper charge on public resources.

Nkhatabay Police Station

- 37. An audit inspection of the financial and other records of Nkhata Bay Police Station was completed on 28th March, 2012. The audit review disclosed weaknesses in financial control, which were communicated to the Controlling officer in my report dated 27th April, 2012. The report highlighted the following observations:—

- (a) **Revenue Spent On Other Recurrent Transactions: K1,000,008.00**

Treasury Instructions stipulate that revenue collected must be banked intact. An examination of payment vouchers for the financial year ended June 2011 revealed that revenue amounting to K1,000,008.00 was spent on Other Recurrent Transactions (ORT) before it was banked. There was no evidence to show that the funds were recovered from ORT and deposited into the revenue account.

- (b) **Fuel Not Recorded In Fuel Register: K491, 606.40**

Treasury Instructions stipulate that fuel must be properly accounted for through the maintenance of relevant books of accounts such as fuel registers and motor vehicle log books.

An examination of fuel records disclosed that fuel coupons amounting to K491,606.40 purchased in the 2010/2011 financial year were not recorded in the fuel register. As a result, the accountability of the expenditure could not be ascertained in the absence of any disposal record.

Ministry of Lands, Housing and Urban Development

Headquarters

- 38. An audit inspection of financial and other records of Ministry of Lands, Housing and Urban Development was completed on 23rd March, 2012. The audit disclosed some weaknesses in financial controls which were

communicated to the Controlling Officer in my report issued in July, 2012. The report highlighted the following observations:

(a) Fuel Not Recorded In The Fuel Register: K6,806,001.00

Treasury Instructions require all purchases and issues of fuel to be recorded in the fuel register to enhance accountability.

An examination of the fuel register maintained by the Ministry disclosed that fuel amounting to K6,806,001.00 purchased between July, 2009 and February, 2011 was not recorded in fuel register. Consequently, the audit team was unable to ascertain the accountability of the fuel in the absence of any disposal record.

(b) Fuel Issues Not Signed For : K753,497.00

An examination of fuel records disclosed that fuel valued at K753,497.00 which was issued to various motor vehicles between January, 2010 and November, 2011 was not signed for by the officers or drivers who collected the fuel and the fuel was also not recorded in the respective vehicles' log books.

(c) Payment of Allowances Without Receipted Payment Vouchers: K2,415,000.00

An examination of payment vouchers in respect of allowances for the period between August, 2009 and May, 2011 disclosed that allowances amounting to K2,415,000.00 were paid without supporting receipted payment vouchers on which recipients signatures could be secured. Consequently, the inspecting auditors were unable to ascertain the propriety of the expenditure in the absence of the recipients' signatures.

Surveys Department

39. An audit inspection of financial and other records of Surveys Department was completed in January, 2011. The audit disclosed some weaknesses in financial controls which were communicated to the Controlling officer in my report dated 27th January, 2012. The report highlighted the following observations:

(a) Cash Drawn Not Accounted For: K3,607,400.00

Treasury Instructions require that where a cheque is drawn to pay several officers, each payee must sign against his/ her name for the cash received and cash receipts must be obtained where cash was used to support the expenditure. All signed receipted payment vouchers should be returned to the cash office for record and audit purposes within ten days after the closure of the activity.

An examination of expenditure records at the office disclosed that cash amounting to K3,607,400.00 was drawn during 2008/09 financial year.

There was however, no evidence in terms of payees' signatures and receipts to show the accountability of the cash drawn making it difficult for the inspecting auditors to ascertain the accountability of the cash.

(b) Stores Purchases Not Accounted For :K3,848,140.99

Treasury instructions require that an effective system of control, custody, issue and record keeping of stores should be maintained. The instructions further require that all goods procured should be recorded in the stores ledgers and that items received and issued should be supported by receipt and issue vouchers.

An examination of stores records disclosed that stores items worth K3,848,140.99 which were purchased between August and December 2008 had no record to show that the items were delivered and accounted for. It was, therefore, difficult for the audit team to establish the accountability of the stores items in the absence of any disposal record.

(c) Irregular Procurement of Goods and Services: K14,349,832.00

The Public Procurement Act requires any procuring entity that engages in single source procurement to prepare a written description of its needs and any special requirements as to quality, quantity, terms and time of delivery. Procurement carried out on a single source basis shall be embodied in a written contract.

An examination of payment vouchers and the related quotations revealed that payment in respect of Marine Propulsion Engines amounting to K14,349,832.00 was made in the financial year 2008/09. The audit team could however not trace the delivery of the Marine Propulsion Engines which were alleged to have been bought from Barloworld Limited. Consequently it was difficult for the auditors to ascertain the propriety of the expenditure.

(d) Fuel Not Recorded in Register:K2,654,750.00

Treasury Instructions require fuel coupons/cards to be properly safeguarded. It is, therefore, necessary that proper control measures regarding the custody and accountability of the fuel are strictly adhered to. Fuel purchased should therefore be recorded in fuel registers, issues signed for and recorded in vehicle log books to enhance accountability.

An examination of fuel register revealed that fuel amounting to K2,654,750.00 bought between July, 2008 and May, 2009 was not recorded in the ledgers. It was therefore difficult for the audit team to ascertain the accountability of the fuel.

Regional Commissioner for Lands (North)

40. An audit inspection of financial and other records of Regional Commissioner for Lands (North) was completed in April, 2012. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report issued in June, 2012. The report highlighted the following observations:—

(a) Failure To Correct Ground Rent And Developmental Charges: K9,730,202.33

The Land Act Chapter 58:01 requires property owners to pay ground rent at the end of each year.

An examination of records in respect of lease tenants disclosed that between July, 2008 and June, 2010, the office did not collect ground rent and developmental charges amounting to K9,730,202.33 resulting in loss of government revenue.

(b) Payment Vouchers Not Produced For Audit: K2,670,722.98

Section 7 of the Public Audit Act states, among other things that the Auditor General shall have full access at all reasonable times to all documents, books, and accounts, public funds and securities and to any place where they are kept.

An examination of payment vouchers list and the expenditure detail sheet disclosed that vouchers amounting to K2,670,722.98 processed between July, 2008 and June, 2010 were not available for audit review. It was, therefore, difficult for the audit team to verify the propriety of expenditure in the absence of the vouchers.

(c) Subsistence Allowances Not Signed For By The Recipients: K207,200.00

Treasury Instructions require that all allowances paid should be signed for by the recipients.

An examination of payment vouchers revealed that allowances amounting to K207,200.00 paid between February and November, 2009 were not signed for by the intended recipients. Consequently, it was difficult to ascertain whether the allowances were paid to the rightful recipients.

(d) Fuel Not Recorded In The Fuel Register: K846,644.00

Treasury Instructions require that all consumable stores must be recorded in the stores ledger to enhance the accountability of stores items.

An examination of payment vouchers and fuel registers revealed that fuel valued at K846,644.00 purchased between July, 2008 and June, 2010 was not recorded in the fuel control ledger. As a result, the accountability of the fuel could not be ascertained.

Ministry of Education, Science and Technology

Rumphi Secondary School

41. An audit inspection of the financial and other records of Rumphi Secondary School was completed in March, 2012. The audit review disclosed weaknesses in financial control, which were communicated to the Controlling officer in my report issued in June, 2012.

The report highlighted the following observation:—

Stores Items Not Recorded In The Stores Ledger: K2,303,793.50.

Treasury Instructions require that all receipts of stores must be recorded in the stores ledger for proper accountability.

An examination of payment vouchers and stores ledger for the period July, 2010 to June, 2011 disclosed that purchases of building materials amounting to K750,153.50 were not recorded in the stores ledger.

It was further noted that purchases of food and rations amounting to K1,553,640.00 were neither supported by delivery notes nor recorded in the stores ledger. It was therefore, difficult for the auditors to ascertain the accountability of these items.

Chitipa Secondary School

42. An audit inspection of the financial and other records of Chitipa Secondary School was completed in June, 2012. The audit review disclosed weaknesses in financial control, which were communicated to the Controlling officer in my report dated 27th August, 2012. The report highlighted the following observations:—

(a) Failure to Collect School Fees: K2,626,500.00

An examination of general receipts and other revenue records disclosed that revenue in respect of boarding fees, social development fund, general purpose fund, tuition fees and textbook fund amounting to MK2,626,500.00 was not collected from students during the 2010/2011 financial year and some students especially those in form four had completed their education.

(b) Payments Without Supporting Documents K2,094,268 .80

Treasury Instructions stipulate that for the purpose of examination, payment vouchers must be fully supported by original invoices or any valid documents, which should be firmly attached to the vouchers before payment is made.

An examination of payment vouchers disclosed that in 2011/2012 financial year, the office made payments totaling K2,094,268.80 which did not have supporting documents. Consequently, it was difficult for the auditors to ascertain whether the expenditure in question was a proper charge on public resources.

(c) Fuel Not Recorded In The Fuel Register: K317,470 .00

Treasury Instructions state that where consumable stores are received in bulk for subsequent issues in small lots, the transactions must be recorded in the consumable stores ledger.

An examination of payment vouchers and fuel register revealed that in 2011/2012 financial year the office purchased fuel amounting to K317,470.00 but did not record it in the fuel register. As a result, the accountability of the fuel could not be ascertained.

(d) Outstanding Debt (Creditors): K1,418,950.00

An examination of financial records disclosed that Chitipa Secondary School had accumulated debts amounting to K1,418,950.00 in respect of food stuff supplies for 2010/2011 financial year. This was the case due to inadequate funding which made it difficult for the school to service the outstanding debts.

(e) Motor Vehicle Spares Not Recorded In The Stores Ledger: K436,060.31

Treasury Instructions state that all consumable stores must be recorded in the ledger.

An examination of stores records revealed that motor vehicle spare parts amounting to K436,060.31 were neither recorded in the stores ledger nor the respective vehicles logbooks. As a result, the accountability of the spares could not be ascertained.

(f) Stores Not Recorded In Stores Ledger: K1,161,283.03

Treasury Instructions require that all stores purchases, should upon delivery, be recorded in the stores ledger and issues made signed for by the recipients.

An examination of payment vouchers revealed that in 2011/2012 financial year the office purchased stores totaling K1,161,283.03 which were not recorded in the stores ledger. As a result, the inspecting auditors could not ascertain the accountability of the expenditure.

Ministry of Economic Planning and Development

National Statistical Office

43. An audit inspection of financial and other records of National Statistical Office was completed in December, 2012. The audit review disclosed weaknesses in financial controls which were communicated to the Controlling Officer in my report dated 14th December, 2012. The report highlighted the following observations:

(a) Over-Payment On Hire of Motor Vehicles: MK965,850.00

Treasury Instructions stipulate that no payment should be made for goods and services not supplied to government.

An examination of vehicle log books against the invoices for the period between May and September, 2010 disclosed that Countrywide Car Hire was hired to supply vehicles for Malawi Demographic and Health Survey (MDHS) exercise. It was noted that the company was overpaid by K965,850.00 on some vehicles in excess of number of days each vehicle was hired and the total mileage covered.

(b) Fuel Not Recorded In The Log Books: MK1,361,754.00

Government regulations require that all fuel issued to vehicles must be recorded in the vehicle log books to enhance transparency and accountability of the fuel.

An examination of the fuel register and vehicle log books for the period between January and February, 2011 revealed that fuel valued at K1,361,754.00 was not recorded in the vehicle log books. Consequently, it was difficult for the audit team to ascertain whether the fuel was used for the intended purpose.

(c) Stationery Items Not Recorded In The Stores Ledger: MK4,852,584.98

Treasury Instructions require that all stores purchases must be recorded in the stores ledger to enhance transparency and accountability.

An examination of goods received notes (GRNs), local purchase orders (LPOs), delivery notes and the stores ledger revealed that stationery worth K4,852,584.98 purchased between October, 2009 and June, 2011 was not recorded in the stores ledger.

Consequently, the audit team could not ascertain the accountability of the stationery items.

**(d) Failure To Produce Receipted Vouchers For Audit Review:
MK5,021,644.00**

Public Audit Act states among other things that the Auditor General or any person authorized by him shall have full access to all documents, books of accounts, public funds, securities and contracts for audit purposes.

An examination of payment vouchers revealed that receipted vouchers for the period between January and December, 2010 amounting to K5,021,644.00 were not produced for audit review. Consequently, the propriety of the expenditure could not be ascertained in the absence of the receipted vouchers.

Ministry of Health

Ministry of Health Headquarters SWAp

44. An audit inspection of the financial and other records of Health SWAp for the year ended 30th June, 2011 was completed in February 2011. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report issued through KPMG in February 2012. The report highlighted the following observations:—

**(a) Payment Vouchers Not Produced For Audit Verification:
K8,911,365.00**

The Public Audit Act requires the Auditor General, his staff or any appointed independent auditor to have access to all books, records or returns relating to accounts at any reasonable time and all Controlling Officers must give them every facility for inspecting such documents.

An examination of financial records for the period August, 2010 and March, 2011 disclosed that payment vouchers amounting to K8,911,365.00 were not produced for audit review. The audit team was therefore unable to ascertain the propriety of this expenditure. Below are the details:

<u>Date</u>	<u>PV No.</u>	<u>Cheque No.</u>	<u>Payee</u>	<u>Amount (MK)</u>
25/08/10	31PV0001698	703310	Sun Bird Hotels Kuchawe Inn	1,519,971.00
30/08/10	31PV0001872	693024	CFAO Malawi	411,230.00
27/09/10	31PV0003424	536483	NBS Bank Lilongwe	3,506,784.00
08/02/11	31PV0009919	759006	BP Limited	3,000,000.00
31/03/11	31PV0013189	724200	BP Limited	120,000.00
30/09/10	N/A	5238	Mr. C Kachitenji (Lilongwe DHO)	353,380.00
				<u>8,911,365.00</u>

(b) Payment Voucher Without Supporting Documents: MK859,886.00

Treasury Instructions require that payment vouchers should have all necessary supporting documents firmly attached to the vouchers before payment is made to afford independent checks.

An examination of payment vouchers at Zomba Central Hospital revealed that voucher number 384 whose payment was made through cheque No 260336 amounting to K859,886.00 had no supporting documents and as such the propriety of the expenditure could not be ascertained.

(c) Payment of Salaries to Non Existent Members of Staff: K830,007.00

An examination of the payroll at Zomba Central Hospital for the period July 2007 and October 2011 disclosed that the hospital paid a sum of K830,007.00 to some members of staff who had left some time back. There was no evidence to show that the amounts were brought on charge to Government Account No 1. Below are the details:

<u>Payee</u>	<u>Date left</u>	<u>Still on payroll</u>	<u>Total paid (MK)</u>
Vincent Chikosa	05/10/2009	20/03/2011	171,879.00
Benina Mkori	16/12/2009	30/10/2011	151,591.00
Linily Bamusi	18/09/2007	27/09/2010	506,531.00
			<u>830,007.00</u>

Queen Elizabeth Central Hospital

45. An audit inspection of financial and other records of Queen Elizabeth Central Hospital was completed in February, 2012. The audit disclosed some weaknesses in financial control which were communicated to the Controlling Officer in my report dated 26th July, 2012. The report highlighted the following observations:

(a) Failure To Collect Revenue in Respect Of Medical Services Supplied: MK421,787.00

Treasury Instructions require collection of non tax revenue where appropriate and the revenue so collected is supposed to be deposited into Government Account Number 1. In this regard the hospital was collecting revenue from patients admitted in the paying wards.

An examination of revenue cashbooks, invoices and patients' register in respect of the paying wards for the period between June, 2010 and July, 2011 however, disclosed that the hospital did not collect a sum of MK421,787.00 from individuals and companies who were and had their employees admitted in the paying wards respectively.

(b) Maintenance Materials, Drugs And Medical Supplies Not Recorded In The Ledger: K1,856, 018.12

Treasury Instructions require that all purchases should be recorded on the stock cards or relevant stores ledgers before issues are made. An examination of payment vouchers for the purchase of maintenance materials, drugs and medical items against stock cards/ledgers for the period between October, 2010 and June, 2011 revealed that some items amounting to K1,856,018.12 were not recorded in the stock cards or ledgers as shown below:—

	<u>Amount (MK)</u>
Maintenance materials	582,255.00
Drugs and Medical Supplies	1,273,763.12
Total	<u>1,856,018.12</u>

(c) Failure to Produce Stock Cards for Audit Inspection: K1,309,332.28

The Public Audit Act requires all public officers to provide all necessary documents and information for audit purposes whenever the information is required.

It was noted that the office did not produce stock cards for other drugs and medical items valued at K1,309,332.28 for the period between January, 2010 and July, 2011. Consequently it was difficult for the auditors to verify the disposal of drugs and medical supplies in the absence of any record.

(d) Office Supplies and Fuel Issues not signed for by the Recipients: K2,657,008.39

Treasury Instructions require that all stores items issued out should be signed for in the ledger by the recipients to acknowledge receipt.

It was however observed that the office issued office supplies and fuel amounting to K2,657,008.39 between July, 2010 and June, 2011 which were not signed for by the recipients as shown below;

	<u>Amount (MK)</u>
Fuel:	363,694.00
Office Supplies:	2,293,314.39
Total	<u>2,657,008.39</u>

It was therefore difficult to establish whether the fuel and the office supplies were indeed issued and used for the intended purpose in the absence of the recipients' signatures.

Zomba Central Hospital

46. An audit inspection of financial and stores records of Zomba Central Hospital was completed in June, 2012. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 1st August, 2011. The report highlighted the following observations:—

(a) Failure To Collect Rentals From Clear Sight Optical Limited: K218,236.50

Zomba Central Hospital sub-contracted Clear Sight Optical Centre Limited to provide various eye care services to its patients and the contract agreement required the Hospital to collect 15% of monthly sales as its revenue.

A reconciliation of general receipts with the sales day book for eye services delivered by Clear Sight Optical Centre Limited disclosed that the Hospital did not collect a sum of K218,236.50 in respect of 15% administration fee on the monthly revenue generated, during the period August, 2011 to February, 2012.

(b) Irregular Payment Of Locum Allowances: K292,600.00

Government through the Ministry of Health formulated a locum policy as a medium term solution to critical shortage of health care workers, where the health professionals like nurses and clinical officers agree to work during the period when they are on leave or off-duty.

An examination of duty rosters, locum books, application payment claim forms and payment vouchers for the period March to October, 2011 disclosed that locum allowances amounting to MK292,600.00 were paid out to some nurses who did not report for duties during the locum period they were paid for. The names of the nurses did not appear on duty rosters and locum books. However, the locum allowances were processed based on the application forms which were filled by a member of the locum coordinating committee instead of the nurses themselves. An interview with the nurses concerned revealed that they did not report for duties during the period in question.

(c) Drugs And Other Medical Supplies Not Recorded On The Stock Cards: K19,594,155.60

It is a requirement that all government health facilities should keep stock cards on which drugs and other medical supplies received from Central Medical Stores (CMS) and other suppliers are recorded and issues from the drugs store reflected.

An examination of delivery notes, invoices and stock cards for the period between April, 2010 and November, 2011 revealed that drugs

and other medical supplies amounting to K19,594,155.60 were not recorded on the stock cards. Consequently, it was difficult for the audit team to establish the accountability of the drugs.

(d) Under-Recording Of Drugs On Stock Cards: K2,133,884.00

A review of delivery notes against stock cards disclosed that drugs worth K2,133,884.00 procured between June, 2010 and November, 2011 were under-recorded on the stock cards. Consequently, the accountability of the drugs which were underrecorded could not be established. There was no evidence to show that a corrective action was taken despite being advised to do so by the inspecting auditors.

(e) Irregular Payment Of Subsistence Allowances: K1,055,000.00

Treasury Instructions require that subsistence allowances must be paid to officers who are assigned and authorized to perform official duties away from their duty station at a given rate for the number of days spent away from the duty station.

An examination of annual work plans and payment vouchers for the period between November, 2010 and August, 2011 revealed that subsistence allowances amounting to K1,055,000.00 were paid to officers for performing activities which were within their normal day to day duties such as attending meetings of Internal Procurement Committees.

(f) Failure To Produce Receipted Vouchers For Audit Review: K4,616,004.00

Public Audit Act of 2003 requires all audited entities to produce all documents, books and accounts for audit purposes.

An examination of receipted vouchers revealed that some receipted vouchers for the period between September, 2009 and November, 2010 amounting to K4,616,004.00 were not produced for audit purposes. Consequently, the inspecting auditors were unable to ascertain the propriety of the expenditure in the absence of the vouchers.

(g) Payment Vouchers Without Supporting Documents: K13,530,581.07

Treasury Instructions require that all payment vouchers should have valid supporting documents such as invoices and cash sale receipts.

An examination of payment transactions disclosed that payment vouchers amounting to K13,530,581.07 for the period between August, 2009 and November, 2011 did not have supporting documents.

In the absence of the supporting documents, the audit team could not ascertain the validity of the expenditure.

(h) Stores Items Not Recorded In The Stores Ledger: K2,470,323.00

Treasury Instructions require that all stores purchases must be recorded in the stores ledger to enhance transparency and accountability.

An examination of goods received notes (GRNs); local purchase orders (LPOs), delivery notes and the stores ledgers revealed that building materials worth K2,470,323.00 purchased during the period between January, 2010 and February, 2011 were not recorded in the stores ledger. It was therefore difficult for the audit team to establish the disposal of the items in absence of any record.

Zomba Mental Hospital

47. An audit inspection of financial and other records of Zomba Mental Hospital was completed in June, 2009. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report issued in June, 2009. The report highlighted the following observation:

(a) Misappropriation of Funds: MK3,731,000.00

An examination of financial records revealed that a sum of K3,371,000.00 was misappropriated by some employees through payments which were fraudulently made between December, 2007 and April, 2008. This happened as a result of weak internal controls which could not provide checks and balances. Consequently, payments were being made for goods and services which were not supplied to the hospital. There was no evidence to show that the amount was recovered from the officers concerned despite being advised to do so.

Ministry of Information and Civic Education

Ministry of Information Headquarters

48. An audit inspection of financial and other records of the Ministry of Information Headquarters was completed in January, 2012. The audit disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 14th September, 2012. The report highlighted the following observations:

(a) Long Outstanding Creditors: MK104,380,407.67

Ministry of Information through the Director of Information entered into contracts with printing service providers to print and supply Malawi Mail Newspapers, Boma Lathu Newspapers, This is Malawi Magazine, Desk Calendars and Presidential Portraits without following procurement procedures. Consequently it was noted that the Ministry accumulated a liability amounting to K104,380,407.67 with the suppliers which was still unsettled as at the date of audit.

(b) Purchases of Stores Items Not Recorded In The Stores Ledger: MK2,561,726.95

Treasury Instructions state that all purchases of stores items should be recorded in the stores ledger before issue to enhance accountability. In this regard, Controlling Officers must ensure that an efficient system of stores accounting procedures exists in their ministries and departments.

An examination of payment vouchers along with delivery notes for the period July, 2010 to June, 2011 disclosed that purchases of stores items amounting to K2,561,726.95 were not recorded in the stores ledger. It was therefore difficult for the auditors to ascertain the accountability of the stores items in the absence of any disposal record.

(c) Fuel Not Recorded In The Fuel Ledger And Vehicle Log Books: MK7,500,642.00

It is a government policy that all government vehicles should have properly maintained logbooks to account for fuel drawn into the vehicles.

An examination of fuel records disclosed that fuel purchases amounting to K7,500,642.00 were neither recorded in the fuel register nor motor vehicle log books between July, 2010 and June, 2012. Consequently it was difficult for the inspecting auditors to ascertain the disposal of the fuel in absence of any record.

(d) Unauthorised Reallocation Of Funds: MK11,420,504.85

Treasury Instructions provide that expenditure must be charged to an appropriate vote and be classified strictly in accordance with budget estimates. They further state that funds should be spent for the intended purposes.

The audit review disclosed that a sum of K11,420,504.85 was utilised on transactions which were not related to the sub-items on the budget. There was no evidence that Treasury authority to vire funds between sub-items was obtained.

(e) Payment Vouchers Without Supporting Documents: MK8,593,346.60

Treasury Instructions require that supporting documents such as delivery notes, local purchase orders, memos and IPC minutes, must be firmly attached to the payment vouchers to afford independent checks.

It was observed that management processed and passed for payment some vouchers amounting to K8,593,346.60 without attaching supporting documentation between July, 2010 and June, 2011. In the absence of the supporting documents, the inspecting auditors could not ascertain the propriety of the expenditure incurred.

(f) Failure To Produce Paid Vouchers For Audit Examination: MK35,453,887.34.

Treasury Instructions stipulate that every Controlling Officer shall ensure that proper accounting records are maintained to support all financial and related transactions and further stipulate that supporting documents should be retained and filed in such a way that they are easily accessible, and can be produced immediately upon request by independent auditors.

It was however observed that the Ministry did not produce payment vouchers amounting to K35,453,887.34 for audit review to support the amounts in the expenditure report for 2010/2011 financial year.

Ministry of Youth and Sports

Kamuzu Stadium

49. An audit inspection of financial and other records of Kamuzu Stadium was completed in September, 2011. The audit review disclosed some weaknesses in financial control which were communicated to the Controlling Officer in my report dated 12th April, 2012. The report highlighted the following observation:—

(a) Long Outstanding Debts - K1,665,000.00

A review of the debtor's records disclosed that the office did not collect debts totaling MK1,665,000.00 from various debtors who advertised their businesses through bill boards as at 30th June, 2011. There was no evidence to show that any follow up actions were made to collect the debts.

Foreign Affairs and International Cooperation

Embassy of Malawi in Harare, Zimbabwe

50. An audit inspection of the financial and other records of the Embassy of Malawi in Harare Zimbabwe was completed in May, 2012. The audit review disclosed some weaknesses in financial control which were communicated to the Controlling officer in my report dated 19th June, 2012. The report highlighted the following observations:

(a) Irregular Withdrawal of Funds from Revenue Accounts: MK78,027,294.23

Treasury Instructions state among other things that, under no circumstances should withdrawals be made from the revenue account unless with authority from the Secretary to the Treasury.

A review of the revenue bank statements disclosed that sums of US\$ 489,254.10 (MK71,501,872.59) and US\$43,072.09 (MK6,525,421.64) were withdrawn from Immigration and Rent and Rates revenue accounts numbers 0222065204001 and 02220652004005 maintained at Stanbic Bank respectively, for office operations between January, 2009 and June, 2011.

In response to the audit query, the Controlling Officer referred to Letter Reference No T 6062 dated 14th July 2010 from Accountant General which only advised the Foreign Missions to use bank balances as at 30th June 2010 as July 2010 funding. In this regard the authority from the Accountant General was only for the month of July 2010.

(b) Overpayment of Personal Emoluments: MK1,731,989.36

Circular Ref. No. EA/14/1/14 dated 30th October, 2008 from the Secretary for Foreign Affairs as read with the approved schedule of representational and entertainment allowance stipulates the applicable rates of monthly allowances payable to Diplomats at the Malawi Missions abroad.

An examination of payment vouchers and the payrolls for the period between July, 2008 and October, 2009 disclosed that the Embassy did not comply with the provisions of the above Circular letter. It was noted that a sum of US\$12,258.32 (MK1,731,989.36) in respect of Foreign, Representational and Entertainment allowance was paid to the former Head of Mission, His Excellency Dr. B.M. Tembo in excess of the approved rates.

(c) Payment Vouchers Without Supporting Documents: MK1,722,141.57

An examination of payment transactions disclosed that some payment vouchers amounting to US\$11,621.00 (K1,722,141.57) were passed for payment between January, 2009 and April, 2010 without supporting documents. It was therefore difficult for the inspecting auditors to ascertain the propriety of the expenditure in the absence of supporting documentation.

(d) Inadequate Control Over Fuel Purchases: MK3,255,258.59

An examination of payment vouchers and other related records disclosed that the Embassy purchases fuel through petty cash.

It was noted that between July, 2008 and May, 2011, the Embassy did not maintain fuel registers to account for the purchases of fuel amounting to K3,255,258.59 (US\$17,723.99). Consequently, it was difficult for the inspecting auditors to ascertain how the fuel purchased during the period was accounted for in the absence of any disposal record.

Malawi High Commission, Tanzania

51. An audit inspection of financial and other records of the Malawi High Commission in Tanzania was completed in June, 2012. The audit review disclosed some weaknesses in financial control which were communicated to the Controlling Officer in my report issued in August, 2012. The report highlighted the following observations:

(a) Loss of Revenue

(i) Loss of Revenue Through Bank Charges: MK5,485,771.11

Treasury Instructions require all revenue collected to be deposited into Government Account No 1 and that under no circumstance should withdrawals be made from the revenue account unless with authority from the Secretary to the Treasury.

An examination of Immigration revenue records disclosed that the Commission opened a current bank account into which revenue realized from Immigration transactions was deposited and withdrawn for office operations. The practice attracted bank charges amounting to MK5,485,771.11 between January, 2010 and April, 2012. These bank charges would have been avoided if the revenue was deposited into Government Account No 1. The inspecting auditors were unable to verify the bank charges with the relevant bank due to time limitation.

(ii) Loss of Revenue Through Excessive Bank Charges As a Result of Operating US\$ Bank Account; MK103,746,324.20

A review of bank statements and related records disclosed that the Commission opted to use a US dollar denominated bank account for payments of goods and services although the transactions involved were in local currency, the Tanzanian Shilling. It was observed that cash was withdrawn from dollar account to pay suppliers of goods and members of staff. As a result of frequent withdrawals from the dollar account, between July, 2010 and April, 2012 the Commission incurred a sum of US\$687,061.75 (MK103,746,324.20) in respect of bank charges which could have been avoided if a local currency bank account was used. Due to time constraints the inspecting auditors were unable to conduct further analysis of the bank charges with the related bank in order to satisfy themselves whether the bank charges were properly charged as they appeared to be on the high side.

(b) Failure To Account For Revenue Collected: MK314,533.00

Treasury Instructions require all revenue collected to be accounted for through issuance of general receipts and recording in the cash book.

The revenue collected should be banked intact without delay.

An examination of immigration revenue banking records disclosed that revenue amounting to MK314,533.00 collected between January, 2010 and April, 2012 was neither banked nor accounted for by the officers responsible as shown below:

<u>Name</u>	<u>Designation</u>	<u>Amount (MK)</u>
Mr J N N Bisiwick	Immigration Officer	181,200.00
Ms D Kayange	Accounts Assistant	133,333.00
		<u>314,533.00</u>

(e) Irregular Withdrawal of Funds from Revenue Accounts: MK78,027,294.23

Treasury Instructions state among other things that, under no circumstances should withdrawals be made from the revenue account unless with authority from the Secretary to the Treasury.

A review of the Immigration revenue records disclosed that a sum of US\$69,027.98 (MK14,500,224.98) was used for office operations between March, 2010 and April, 2012. There was no evidence to show that authority was sought from the Secretary to the Treasury before withdrawing the funds.

(f) Failure to Record Purchases of Stores Items and Fuel in the Ledger: MK8,628,573.87

An examination of payment vouchers in respect of stores and fuel purchases disclosed the Commission did not record receipts of stores items and fuel amounting to K8,628,573.87 in the stores ledger, between July, 2010 and November, 2011. Consequently the inspecting auditors were unable to ascertain the disposal of the fuel in absence of any record.

Malawi Human Rights Commission

52. An audit of financial and other records of Malawi Human Rights Commission was completed in September, 2011. The audit disclosed weakness in financial control which were communicated to the Controlling Officer in my report issued in December, 2011. The report highlighted the following observations:

(a) Payment Vouchers Without Supporting Documents: K4,421,268.62

Treasury instructions require that all payment vouchers must be fully supported by the original documents such as invoices, local purchase orders or cash receipts to afford independent checks.

An examination of payment vouchers for the period September, 2008 to November, 2010 revealed that payment vouchers amounting to K4,421,268.62 had no supporting documents. The propriety of the expenditure could therefore not be ascertained in the absence of the supporting documents.

(b) Fuel Purchases Not Recorded in the Ledger: K4,228,897.16

An examination of the payment vouchers disclosed that fuel worth K4,228,897.16 bought between August 2007 and March 2011 was not recorded in the fuel register, contrary to Treasury instructions which stipulate that all purchases of fuel should be recorded in the register before issue to enhance accountability.

PART IV
RECOMMENDATIONS AND ACKNOWLEDGEMENT

Recommendations

53. In the course of my audit of the 2011/2012 Accounts of the Government of the Republic of Malawi, each Controlling Officer was sent appropriate audit inspection report with recommendations, regrettably, evidence has shown that in certain cases the recommendations have not been given due consideration by the Controlling Officers.

A summary of my recommendations included:-

- (a) The Central Internal Audit Unit continued to perform commendable audit work which was relied upon by my Office. There is still need to enhance the standard of internal audit in order to further provide assurance to management regarding effectiveness of internal control systems and administrative processes in ministries and departments;
- (b) Although Ministries started preparing own financial statements with effect from the financial year under review, there are a lot of challenges which need to be mitigated in order to ensure timely preparation of the financial statements. The Accountant General Department should continue to train accounting personnel in the ministries on the preparation of the accounts so as to enhance capacity;
- (c) There is immediate need to strengthen Audit Committees in all Ministries and Departments to ensure implementation of audit recommendations; If possible the composition of the committees should include independent members which may be drawn from the private sector or retired civil servants who displayed high integrity, skills of competence and who can preserve code of ethics;
- (d) Procurement of goods and services should be executed within set processes and regulations and procedures to ensure that maximum value of money is obtained;
- (e) Knowledge and skills of accounting personnel should be regularly enhanced through continuing professional development for the qualified accountants and the rest through generic training, including refresher courses and workshops;
- (f) In compliance with Government financial rules and regulations, bank reconciliations should regularly be prepared for all bank accounts maintained by the Reserve Bank of Malawi;
- (g) Public Financial Management Reforms such as implementation of the Integrated Financial Management Information System (IFMIS) should be continued to be given serious attention by all policy makers. IFMIS software in particular should be regularly reviewed and upgraded as a means of enhancing in-built controls;

- (h) The systems requirements and procedures should be reinforced with capable supervision;
- (i) Further investigations should be conducted by special teams on the areas suspected that public resources may have been lost or mismanaged; and
- (j) Resources should be made available for NAO to finalize the remaining part of the special audit assignment.

Acknowledgements

54. I wish to place on record my profound gratitude and appreciation to staff in my office who carried out their duties diligently despite resources constraints. I also wish to acknowledge the assistance and cooperation given to me during the year under review by the Secretary to the Treasury, the Accountant General and all Controlling Officers and their staff. The cooperation enabled me to obtain information and documentation for the audit services.

31st December, 2014

LILONGWE, MALAWI



MALAWI GOVERNMENT

**REPORT OF THE AUDITOR GENERAL
ON THE
ACCOUNTS OF THE GOVERNMENT
OF THE
REPUBLIC OF MALAWI**

FOR THE YEAR ENDED 30TH JUNE, 2012

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