

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

FOR THE YEAR ENDED 30TH JUNE, 2006

NATIONAL AUDIT OFFICE

VISION : To be an autonomous Supreme Audit Institution that is responsive to the needs of the Nation.

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 applied for the purposes intended

CORE VALUES :

- Independence
- Professionalism
- Integrity
- Credibility
- Excellence

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Capital City
Lilongwe 3.
Malawi

30th November, 2008

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 Malawi for the year ended 30th June, 2006 for tabling in the National Assembly.

Yours faithfully,

R. A. Kampanje
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, 2006 but have, where necessary, been continued into the subsequent year.

The Government budgetary operations registered expansions in both revenue and expenditure during the year under review. Total revenue collected increased by K8.4 billion to K94.1 billion which compares favourably with K85.7 billion realized in 2004/05 financial year. Total expenditures dropped by K2.5 billion from K84.1 billion in 2004/05 to K81.6 billion in 2005/06 financial year. Domestic revenue remained relatively buoyant and continued to maintain an upward trend. This was mainly premised on the improved tax collection and administration by the Malawi Revenue Authority.

The Recurrent Account registered K94.1 billion in revenue while the Recurrent Expenditure was K81.6 billion resulting into a surplus of K12.5 billion. Development Account enjoyed resources amounting to K19.3 billion which is K4.7 billion more when compared to K14.5 billion for 2004/05 financial year. Total expenditure charged to the Development Account increased by K8.1 billion when compared to K10.6 billion for 2004/05. Grants and external loans were recorded at K15.6 billion and that constituted the main source of Development Resources. Government implemented sound fiscal and monetary policies that have resulted in the resumption of the donor support during the period under review.

In a bid to improve financial management and expenditure control, Government implemented a number of public finance management reforms. During the year under review Government implemented the Integrated Financial Management Information System (IFMIS). It is hoped that with the introduction of (IFMIS) and its roll out to Assemblies including full implementation of the Public Finance Management Act, Public Audit Act and Public Procurement Act, Ministries and Departments should experience improved public expenditure management and control.

PART I

INTRODUCTION

Audit of Public Accounts

1. I am required by 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 principle 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 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.
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, agency and public authority or body do ensure that—
 - Revenue is properly assessed and collected;
 - Expenditure is validly and correctly authorized;
 - Revenue, expenses, assets and liabilities are properly recorded and accounted for;
 - Financial and operating information is reliable;
 - Assets are safeguarded against loss or destruction;
 - Recourses are employed and managed in an economic, effective and efficient manner;
 - There has been no waste or extravagance;
 - Outcomes or provisions produced are consistent with those specified in any Appropriation Act;
 - Relevant government policies and legislation are being complied with;
 - All expenditure is charged against the relevant allocation appropriated by the National Assembly; and
 - The accounts and records have been properly kept.

4. Section 6 (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 public auditors, and where I do not approve the audited financial statements.
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, 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) 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 the Auditor General 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 Statements of Accounts within a period of four (4) months but not later than 31st October after the close 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 an Act; budgets, actual performance and variations between actual and budget;
- (i) A statement showing for each account in the Trust Fund, balances at the beginning and end of the reporting period, and the nature of the movement in the reporting period;
- (k) 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 Officer's Responsibility

8. In terms of Section 10 of the Public Finance Management Act, it is the Controlling Officer's responsibilities 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 over-commitment; and
- (f) The collection of public moneys is according to approved plans and the estimates.

Scope of Audit

9. The audit of public accounts is performed in accordance with International Organization of Supreme Audit Institutions (INTOSAI) auditing standards. 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 generally accepted auditing standards, practices and methods, 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, 2006, 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—
- Planning the audits to obtain relevant information in the most efficient manner and to determine the audit procedures employed;
 - Evaluation and testing of the accounting and internal control systems;
 - Testing of controls to ensure that procedures have been applied and that the relevant laws and regulations have been complied with, including the test for validity, completeness and accuracy of the accounts; and
 - Reporting the audit findings based on the audit procedures performed and evidence gathered.

Delays in 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 can not be over emphasized.

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

Co-operation with the Swedish National Audit Office

12. During the period under review, the National Audit Office continued to be supported by the Swedish National Audit Office under the financing agreement which was signed on 15th April, 2002 between the Government of Malawi and the Kingdom of Norway. The core objective of the institutional cooperation project is to build capacity of the NAO for a better delivery of audit services. To date the following have been developed—

- Training strategy
- I.T. Strategy
- Code of Ethics
- Open Appraisal System
- Auditing Standards
- Installation of Local Area Network (LAN)

Reporting Procedure

13. 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. 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

14. 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, 2006 is unqualified and is presented separately in Volume I of the Consolidated Annual Appropriation Accounts for the year ended 30th June, 2006.

PART II

BUDGET OUT-TURN

REVENUE

15. Total revenue for the period ended 30th June, 2006 was K94,126.858 million reflecting an increase of K8,452.300 million over the 2004/05 revenue which was recorded at K85,674.558 million. The main sources of revenue were taxes K27,820,218 million, and customs and excise K32,402.170 million and Non-Tax receipts/revenue (including BOP) K30,972 million.

The revenue for 2005/06 exceeded the revised amount of K62,039.215 million by K32,087.643 million. In the main, the over-collection was attributed to improved revenue collection on taxes and customs and excise. The trend of over-collection for the past four years is tabulated as follows—

<u>Year</u>	<u>Provision MK'000</u>	<u>Actual collection MK'000</u>	<u>Over collection MK'000</u>
2002/2003	20,813.275	34,261.503	13,448.228
2003/2004	20,813.275	87,401.808	66,588.533
2004/2005	54,575.288	85,674.556	31,099.270
2995/2006	62,039.215	94,126.858	32,087.643

EXPENDITURE

16. During the year under review, total expenditure was K81,589.832 million representing a reduction in expenditure of K2,457.655 million when compared to expenditure of K84,047.487 million for 2004/05. The overall picture of the voted expenditure was a net saving of K29,187.073 million which compares favourably with a net excess expenditure of K6,940.508 million for 2004/05.

CONSOLIDATED FUND

CONSOLIDATED REVENUE ACCOUNT

17. The deficit on the Consolidated Revenue Account had improved during the year under review since the cumulative deficit of K86,289.320 million had modestly decreased to K73,752.294 million by the close of the year. The consolidated picture of the account is as follows—

	<u>MK'000</u>
Balance as at 1st July, 2005	86,289.320 DR
Add: Revenue for the year	<u>94,126.858 CR</u>
Sub total	7,837.538 CR
Less: Expenditure for the year	<u>81,589.832 DR</u>
Cumulative deficit as at 30th June, 2006	<u>73,752.294 DR</u>

The planned recurrent deficit before grants for the year under review was K48,737.690 million. The actual Revenue Account out-turn as at 30th June, 2006 was a surplus of K12,537.026 million.

The annual surplus could largely be attributed to fiscal reforms including implementation of an Integrated Financial Management Information System (IFMIS) instituted by Government and improved public expenditure management and control.

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

	<u>2002/2003</u>	<u>2003/2004</u>	<u>2004/2005</u>	<u>2005/2006</u>
	<u>MK'000</u>	<u>MK'000</u>	<u>MK'000</u>	<u>MK'000</u>
Actual Revenue	34,261.502	87,401.808	85,674,558	94,126.858
Less: Actual Expenditure	<u>52,056,406</u>	<u>140,138,164</u>	<u>84,047,487</u>	<u>81,589.832</u>
Surplus (Deficit)	<u>(17,794,904)</u>	<u>(52,736.350)</u>	<u>1,627.071</u>	<u>12,537.06</u>

CONSOLIDATED DEVELOPMENT ACCOUNT

18. The total expenditure on the Development Account for the year ended 30th June, 2006 amounted to K18,708.760 million reflecting an increase of K4,188.239 million over the previous year's expenditure of K14,520.521 million

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

EXPENDITURE

	<u>2002/203</u>	<u>2003/2004</u>	<u>2004/2005</u>	<u>2005/2006</u>
	<u>MK'000</u>	<u>MK'000</u>	<u>MK'000</u>	<u>MK'000</u>
Revised Estimates	11,195.722	15,502.058	16,370.070	<u>28,442.223</u>
Actual Expenditure	8,382.842	10,150.253	14,520.520	<u>18,708.760</u>
	2,812.842	5,351.805	5,778.489	<u>9,733.463</u>

Of the 32 votes, 30 recorded under expenditure of K18,550.555 million. The largest unspent balances of K1,646.824 million and K1,482.811 million were recorded against Vote 190—Agriculture and Vote 094—Nutrition HIV & AIDS, respectively.

The overall state of affairs on the Development Fund as at 30th June, 2006 was a cumulative surplus of K3,513.367 million, registering an increase of K557.203 million from K2,956.164 million recorded at the end of the 2004/05 financial year. Details are as follows—

	<u>MK'000</u>
Receipts during the year	19,265.963 CR
<i>Less:</i> Payments	18,708.760 DR
Surplus/(Deficit) for the year	557.203 CR
<i>Add:</i> Opening balance	2,956.164 CR
Cumulative Surplus as at 30th June 2006	3,513.365 CR

CONSOLIDATED FUND

FINANCING THE DEFICIT

19. The Budget Statement for 2005/06 financial year envisaged a deficit of K2.6 billion on the Revenue Account while the Development Budget was expected to break-even at K34.7 billion.

During the year under review, the Recurrent Revenue Account recorded K94,126.858 million in revenue while the Recurrent Expenditure was K81,589.832 million resulting into a surplus of K12,537.026 million.

The Development Account recorded K19,265.963 million in resources reflecting an increase of K4,726.121 million when compared to K14,539.842 million for 2004/05 financial year.

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

<u>Year</u>	<i>Combined (Deficit)/Surplus</i> <u>MK'000</u>
2002/03	(18,289.320)
2003/04	(84,979.549)
2004/05	(83,333.156)
2005/06	(70,238.929)

It is envisaged that full implementation of the Integrated Financial Management Information System (IFMIS) coupled with strict compliance with the provisions of the Public Finance and Management Act and Public Procurement Act will further improve public financial management and control in Ministries, Departments and other Government Agencies.

PART III

MINISTRIES, DEPARTMENTS AND OTHER PUBLIC ENTITIES

NATIONAL ASSEMBLY

20. An audit inspection of the financial and stores records of the National Assembly was completed on 11th October, 2006. The audit disclosed some weaknesses in financial control which were communicated to the Controlling Officer in my report dated 16th May, 2007. The report highlighted the following observations—

(a) Failure To Produce Receipted Vouchers For Audit Inspection: K15,524,019.17

Treasury Instructions stipulate that receipted vouchers must be managed and controlled properly to ensure that cash drawn is properly accounted for.

An examination of payment vouchers for the period March, 2003 to February 2006 disclosed that K15,524,019.17 cash was drawn for payment of allowances to members of staff and members of Parliament, but receipted vouchers to ascertain accountability of the amount were not produced to the inspecting auditors. Consequently, the propriety of this expenditure could not be ascertained.

(b) Special Advances Granted to Members of Parliament Not Recovered Within the Term of Office 1999—2004: K23,642,647.24

Terms and Conditions of service for members of Parliament in respect of advances stipulate that advances granted to a Member of Parliament must be fully recovered within the five (5) year term of office.

An examination of advances records disclosed that advances granted to some members of Parliament amounting to K23,642,647.24 were not fully recovered as at 31st March, 2004, two months before the May 2004 Parliamentary and Presidential elections contrary to terms and conditions of service.

It is not known if the advances have since been fully recovered.

(c) Payment Of Special Advances to Members of Parliament Without Details of Repayment Period and Monthly Installments: K14,572,700.00

An examination of payment vouchers for the period July, 2004 to June, 2005 disclosed that special advances totalling K14,572,700.00 were granted to Members of Parliament without details of installments and

recovery period. Consequently, it could not be established whether the advances have since been recovered in full.

(d) Payment Vouchers For Advances Not Presented for Audit Examination: K900,000.00

An examination of advances records disclosed that payment vouchers totaling K900,000.00 were not presented for audit examination. Therefore, it could not be ascertained whether the advances were properly granted and that they have since been recovered in full.

(e) Failure To Deduct Withholding Tax: K1,163,021.82

Treasury Instructions stipulate that it is the duty of a Controlling Officer to collect taxes due to government. The Taxation Act stipulates that withholding tax should be collected from payments of goods and services to suppliers who do not possess withholding tax exemption certificates. Examination of payment vouchers for the period February 2004 to June, 2006 disclosed that withholding tax amounting to K1,163,021.82 was not collected from suppliers of goods and services contrary to the provisions of the Taxation Act.

At the time of writing this report, I had not received any response to my report on the issues raised therein.

OFFICE OF THE PRESIDENT AND CABINET

DEPARTMENT OF POVERTY AND DISASTER MANAGEMENT AFFAIRS

21. An investigative audit of five accounts of the Relief Programme under the Department of Poverty and Disaster Management Affairs was conducted during the period June to August, 2006. The audit disclosed weaknesses in financial controls which were communicated in a report in October 2006. The report highlighted the following observations—

(a) Fraudulent Payments: K77,129,226.06

An examination of bank statements and accounting records made available to the audit team for the period July 2004 to June 2006 disclosed fraudulent payments amounting to K77,129,226.06 from five accounts of the relief programme.

According to information obtained from the Malawi Police Service, (Department of Fiscal Police), the Internal Audit Unit of the Standard Bank, it is alleged that the bank uncovered dubious payments from the programme's accounts and the deposits of the same into a private account belonging to Wesam General Dealers. The matter involved

collusion between the bank tellers and some accounts officers of the department. The accounts officers involved were as follows:

Mr. D. N. Malumba	—Assistant Accountant (Cheque signatory)
Mr. E. Koko (deceased)	—Senior Accounts Assistant
Mr. B. M. Mbendera	—Senior Accounts Assistant
Mr. A. W. Bango	—Accounts Assistant
Mrs. S. D. Kalomba	—Senior Accounts Assistant

Police investigations revealed that some bank tellers colluded with the four officers in forging cheques obtained from the Department and elsewhere. The forged cheques were deposited into a private account with the same bank in the name of Wesam General Dealers from which the whole deposited amounts were immediately withdrawn.

Our audit disclosed that the fraud could not be detected by management due to lack of effective internal checks, control and supervision. Most of the cheque leaves used were pulled out from the cheque pads or those disguised as cancelled in the cash books, but were paid on bank statements.

Summary of the fraudulent payments is as follows:—

<u>Payee/Beneficiary</u>	<u>No. of Chqs</u>	<u>Period</u>	<u>Total Amount</u> K
Wesam GD (N. Maganga)	49	Aug 05—June 06	72,832,405.33
S. D. Kalomba (Acc.Ass)	13	Feb 05—Nov.05	1,227,700.00
E. Koko (Acc. Ass.)	6	July 04—Dec. 05	596,800.00
A. W. Bango (Acc. Ass.)	7	June 05—Dec 05	683,880.00
E. R. Mandala (Lands Dept)	4	March—June 05	386,900.00
B. M. Mbendera (Acc.Ass)	2	Sept 04—Aug 05	172,265.46
F. Namasani (P & DMA)	1	February 05	72,600.00
M. P. Phiri (Acc.Ass)	1	January 06	19,200.00
Cashed No details at bank	9	Sept 04—Aug 05	858,537.27
Deposited at other banks	2	Aug 04—Aug 05	32,356.00
Cashed not traced by bank	4	Nov. 04—May 06	<u>256,582.00</u>
		TOTAL	<u>77,129,326.06</u>

(b) Funds Not Accounted For: K75,461,793.47

A further examination of the financial records disclosed that payments totaling K75,461,793.47 which were recorded in cash books and bank statements had no supporting documentation. It was suspected that most of the accounting records including the paid cheques might have been destroyed by the suspects in order to conceal the fraud.

Summary of the payments is shown below and details were provided in the report of October, 2006—

<u>Description</u>	<u>Total Amount</u>
	K
Payments in Cashbook	33,655,498.61
Debits on bank statements only	<u>41,806,294.86</u>
Total	<u>75,461,793.47</u>

At the time of writing this report, I had not received any response to my report on the matter.

22. POVERTY ALLEVIATION TRUST FUND (PATF)

An investigative audit on the Poverty Alleviation Trust Fund (PATF) was completed in June, 2006. The audit was part of the process in winding up the Trust and by then all the Trustees had already been discharged. The audit raised the following observations—

Payments to or on Behalf of the Chairman not Covered by Regulations: K1,660,568.62

The Chairman was being paid a monthly fuel allocation, residential security and telephone services which he was not entitled to other than honorarium and sitting allowances. A total of K1,660,568.62 was noted to have been paid to Rev. Jimu for fuel, personal house security guard, and residential telephone and cell phone expenses. The payments were not consistent with the terms and conditions for members of the Trust Fund.

At the time of writing this report, I had not received any reply to my report issued on the matter.

LOCAL GOVERNMENT AND RURAL DEVELOPMENT

NKHOTA-KOTA DISTRICT ASSEMBLY

FLORA KOMMUNE SISTER RELATIONSHIP PROJECT

23. An audit of the financial statements of the Flora Kommune Sister Relationship project was completed on 28th January, 2006. The audit disclosed some weaknesses in financial control which were communicated in my report dated 7th February, 2006. The report highlighted the following observations—

(a) Purchase of Burnt Bricks At Exorbitant Price

The project purchased 21,429 burnt bricks from Mr. E. Kapote at K3.5 each while the prevailing price was K1.5 per brick. The project did not obtain quotations as is required by the Public Procurement Act. The total cost was K75,001.50 and payment was made on voucher No. 000177. It was the view of the auditors that if quotations were sourced from several suppliers the project could have bought the bricks at a cost of K32,143.50 thereby realizing a saving of K42,959.00.

(b) Payment Without Supporting Documents: K533,370.00

An examination of payment vouchers disclosed that the project made a refund of K533,370.00 to Mr. Bright Samdal, a Norwegian volunteer, in respect of travel, food and other expenses without any supporting documentation. The refund was made on payment voucher No. 208 and cheque No. 000145 dated 23rd September, 2005.

At the time of writing this report, I had not received any response to my inspection report.

CHIRADZULU DISTRICT ASSEMBLY

24. An audit inspection of the financial and stores records of Chiradzulu District Assembly was completed on 15th October, 2005. The audit disclosed some weaknesses in financial control which were communicated to the Controlling Officer in my report dated 20th June, 2006. The report highlighted the following observations—

(a) Failure To Authorise/Countersign Payment Vouchers: K7,067,393.38

Financial Management and Accounting Procedures for District Assemblies Chapter 4 paragraph 4.6.5. require that payment vouchers must be duly signed and authorised before payment is made.

It was noted that payment vouchers totaling K7,067,393.38 made between June, 2004 and July, 2005 had no signatures of authorizing and countersigning officers as required by the financial regulations. In the circumstances, the propriety of the expenditure could not be ascertained.

(b) Payments Made Without Supporting Documents: K1,449,306.40

Financial Management and Accounting Procedures Manual requires that payment vouchers should be supported by original documents before passing them for payments.

It was noted that between July, 2004 and June, 2005 payments totaling K1,449,306.40 were made without supporting documents. In the circumstances, accountability of the amount could not be ascertained.

(c) Payment Made For Undelivered Stores Items: K224,885.00

An examination of Payment vouchers and stores delivery notes disclosed that the Assembly paid a sum of K224,885.00 to Moley Investment for 200 bags of cement, window glasses and putty through Cheque No. 000387 dated 6th October, 2004.

The materials were meant for Chigodi CDSS Project. However, there were no records to confirm that the materials paid for were received. It was further noted that the project was fully funded by DDF although the said payment was charged to ORT account.

(d) Payment For Work Not Completed (Casualty Ward): K458,230.00

In January, 2006, the hospital engaged Mabro Plumbing and Painting Contractors of P.O. Box 51960, Limbe to carry out maintenance work at the casualty ward at a total cost of K458,230.00. Full payment was made to the contractor on voucher No 424 of 6th January, 2006 and Cheque Nos. 000481/468/467 even though work had not been completed.

At the time of audit which took place in March 2006, the work was incomplete and abandoned by the contractor. There was no evidence to indicate that measures had been put in place to ensure recovery of the amount from the contractor.

At the time of writing this report, I had not received any response to my report on the issues raised therein.

PHALOMBE DISTRICT ASSEMBLY

25. An audit inspection of financial and management operations of Phalombe District Assembly was completed on 9th August, 2005. The audit disclosed some weaknesses in financial control which were communicated in my report dated 15th May, 2006. The report highlighted the following observations—

(a) Failure To Account For Deceased Estate Cash For Minors By Osman M. Nyahoda: K919,651.95

An examination of payment vouchers and third party registers for disbursement of deceased estate funds disclosed failure by management to exercise adequate control over deceased estate funds. It was noted that a sum of K919,651.95 could not be accounted for by Mr. Osman Mussa Nyahoda, a clerical officer at the Assembly. The cash was not deposited into minors accounts after distribution of funds to other beneficiaries, during the period between November, 2002 and March, 2005. Details were provided in my report dated 15th May, 2006.

- (b) Failure to Account For K181,524.00 For Chiefs Remunerations By Mr. J.A. Phiri

Treasury Instructions require that all unclaimed salaries, wages and allowances should be brought on charge. A receipt must be issued and the money deposited into the bank.

An examination of payrolls for chiefs remunerations revealed that Mr. James A. Phiri, a clerical officer, failed to account for K181,524.00 meant for chiefs for the period between July, 2002 and June, 2005. There was no evidence to indicate that disciplinary action was taken against the officer and the money recovered from him.

- (c) Chiefs' Remunerations Used By The Office: K228,273.00

An examination of the payrolls for the chiefs remuneration revealed that the office used a sum of K228,278.00 for office operations between September, 2004 and July 2005 and as a result some chiefs did not receive their remunerations for that period. There was no evidence to show that the amount had been paid back to the account for payment to the chiefs.

At the time of writing this report, I had not received any response from the Controlling Officer.

ECONOMIC PLANNING AND DEVELOPMENT

INSTITUTIONAL COOPERATION PROJECT BETWEEN MINISTRY OF ECONOMIC PLANNING AND DEVELOPMENT AND STATISTICS NORWAY

26. An audit inspection of the financial statements for the period ended 30th June, 2005 which was carried out in the month of December, 2005 brought to light the following irregularity—

Payments Made Without Supporting Documents: MK705,902.08

Payments made in respect of workshops that were held between the months of August and October, 2004 had no appropriate supporting documentation

to substantiate the propriety of the expenditure made. This was against the requirements of the Treasury Instructions which stipulate that any payment voucher on which an official payment has been made should have sufficient documentation to support the expenditure. Details are as follows—

<u>Payee</u>	<u>Cheque No.</u>	<u>Amount</u>	<u>Date</u>	<u>Details</u>
		<i>K</i>		
A. Kautsi f/s	082024	389,050.00	5-8-04	Transport and Accommodation for Workshop Participants
E. A. Moyo f/s	082043	16,852.00	4-10-04	Expenses for Macroeconomic modeling training workshop at Kalikuti Hotel in Lilongwe

At the time of writing this report, I had not received any reply.

SPORTS AND CULTURE

NATIONAL ARCHIVES OF MALAWI

27. An audit inspection of financial and stores records of the National Archives of Malawi was completed on 20th December, 2006. The audit disclosed some weaknesses in financial control which were communicated in my report of 29th December, 2006. The report highlighted the following observation—

Allowances Not Signed For: K189,930

Treasury Instructions require that cash payments must be signed for by the recipients. An examination of payment vouchers for the period August, 2005 to March, 2006 disclosed that allowances amounting K189,930 were not signed for by the recipients and in the circumstances, the accountability of the funds could not be ascertained.

At the time of writing this report, I had not received any response from the Controlling Officer.

AGRICULTURE AND FOOD SECURITY

GRAIN AND LEGUME DEVELOPMENT PROJECT

28. An audit of the financial and stores records of Grain and Legume Development Project was completed on 24th February, 2006. The audit

disclosed some weaknesses in financial control which were communicated to the Controlling Officer in my report dated 17th May, 2006. The report highlighted the following observations—

- (a) Opening of Unauthorised Bank Account No. 01441848876500 with National Bank of Malawi—Lilongwe Branch to which K13,039,001.31 was Transferred.

Treasury Instructions stipulate that before opening bank accounts authority must first be obtained from the Accountant General.

A review of bank accounts opened by Grain and Legume Development Project disclosed that bank account No. 01441848876500 was opened without Accountant General's authority to which K13,039,001.31 was transferred.

It was further observed that the late Mr. A. A. Likoswe was the only signatory to the account contrary to government regulations on opening of bank accounts which require two (2) or more signatories to operate a bank account. There was no evidence to show that the Ministry of Agriculture supervised the operations of this project.

- (b) Unaccounted For Donor Funds: K8,563,610.00.

On 25th June, 2004, Emergency Drought Recovery Project (EDRP) funded Grain and Legume Development Project K8,563,610 through National Bank Account No. 01441848876500 Lilongwe Branch for activities at Nkhota Kota RDP (Lilongwe and Kapiti EPAs) under cheque No. 023437 dated 22nd June, 2004.

Verification with Nkhota Kota RDP disclosed that the activities never took place and yet all funds were spent to the extent of the account being overdrawn by K397,515.68. It could not be ascertained how these funds were accounted for.

- (c) Unaccounted For Cash Drawn By Miss J. Kamponda for Staff: K445,000.00

Funds drawn for staff are supposed to be accounted for by producing acquitted receipted vouchers on which payees append their signatures to acknowledge receipt of the money.

An examination of payment voucher dated 5th November, 2003 cheque No. 22 disclosed that Miss J. Kamponda Project Assistant, withdrew funds amounting to K455,000.00 for staff, but the receipted voucher was not produced for audit examination. It could not be established how the money was accounted for.

At the time of writing this report, I had not received any response to my report on the issues.

DEPARTMENT OF ANIMAL HEALTH AND INDUSTRY

29. An audit inspection of animal farms by the Internal Audit Section of the Ministry of Agriculture was completed on 12th August, 2005. The audit disclosed some weaknesses in financial control which were communicated in their report dated 8th November, 2005. The report highlighted the following observations—

(a) Outstanding Debts: K417,786.61

Treasury Instructions stipulate that Government goods and services must not be supplied on credit unless specifically authorized by the Treasury. Contrary to the provisions of the Treasury Instructions, the Department sold livestock and meat and provided other services on credit, resulting in failure to collect K417,786.61. There was no evidence to indicate that efforts were being made to speed up the collection of the debts. Details are shown below—

<i>Date</i>	<i>Name and Address of Debtor</i>	<i>Tag/Route Number</i>	<i>Amount</i>
			<i>K</i>
15/12/03	A. A. Khaya, Box 2096, LL.	0618	8,810.00
21/05/03	P. Banda, Box 30045, LL. 3	4210	3,370.00
21/12/04	Kaliat, DAH 1	1255	4,890.00
21/12/04	Ngoma, DAH 1	1255	5,720.00
06/05/03	E. H. Khwera	105	2,685.00
21/12/04	L. C. Tumbe & Bwananse, LLDD	0655	11,360.00
21/12/02	Juma, Agriculture Hdqts	0673	15,440.00
03/09/03	Mr. Zimba, DAH 1	1659/10190	46,000.00
17/12/02	Mr. Bwalo, DAH 1	Various	29,550.00
10/10/02	Mr. J. C. Khonje, DAH 1	A 050	10,715.00
23/12/04	—	2024	18,075.00
23/12/04	Cold Storage, Lilongwe	10/11/12/13/15	175,113.50
23/12/04	MASAF Zone Manager, LADD	1	12,383.61
	Programme Manager LADD	2	26,781.30
	DADO, Lilongwe, RDP	3	16,511.25
	DADO, Dedza, RDP	4	30,390.85
		TOTAL	<u>417,786.51</u>

(b) Non Banking of Revenue : K396,093.84

An examination of General Receipt books and bank deposit slips disclosed that revenue collected during the months of May and June, 2005 amounting to K396,093.84 was not banked by Bwemba and Mikolongwe animal farms and was not physically available.

It could not be established how the cash was accounted for. Details are as follows—

<u>Date</u>	<u>Receipt</u>	<u>Station</u>	<u>Amount</u>
			K
10/05/05	816453	Bwemba	24,000.00
18/05/05	816454	Bwemba	24,000.00
19/05/05	816458	Bwemba	52,440.00
22/06/05	816483	Bwemba	6,000.00
Various	537631-537640	Mikolongwe	<u>289,653.84</u>
		TOTAL	<u>396,093.84</u>

At the time of writing this report, I had not received a copy of the response to the internal audit report.

AGRICULTURAL DEVELOPMENT OFFICE, THYOLO

30. An audit inspection of financial and stores records of Thyolo Agricultural Development Office was completed on 10th February, 2006. The audit disclosed some weaknesses in financial control which were communicated to the controlling officer in my report dated 6th September, 2006. The report highlighted the following observation—

Shortfall On Receipt Of Maize Seed (DK8031): K1,600,000.00

Treasury Instructions state that issues and receipts of stores items be recorded at the time they are being received and must be signed for in the register by the officer drawing the stores.

An examination of stores ledger against suppliers delivery notes disclosed that the office failed to record 1,600 bags of maize seed (DK8031) valued at K1,600,000.00 which were received on 23rd December, 2005.

No satisfactory explanation was given for the failure to record the maize seed and as such it was difficult for the inspecting auditor to ascertain the disposal of the commodity in absence of any disposal record.

At the time of writing this report, I had not received any response from the Controlling Officer.

DEPARTMENT OF FISHERIES

31. An investigative audit on financial irregularities at Department of Fisheries was completed in August, 2005. The audit disclosed some weaknesses in financial control which were communicated in my report dated 20th June, 2006. The report highlighted the following observations—

(a) Utilization of HIPC Funds—K30,000,000.00

In April, 2004, the Department of Fisheries received funds from Treasury amounting to MK30,000,000.00. No specific instructions were given on how disbursement of the funds would be made. Management decided to administer the funds under the Nature/ORT account which is for the Department’s normal operating activities, but used a separate cashbook and Cheque pad.

An examination of the accounting records revealed serious weaknesses in internal checks and control. It was observed that the trend of expenditure was abnormally fast to the extent that the K30,000,000.00 was spent within two months i.e. May-June, 2004, and most of it was spent on workshop/seminars and allowances. In the normal circumstances, HIPC funds were funded to Ministries and Departments with specific poverty eradication initiatives on their plans. It would appear this was not the case at the Fisheries Department, hence some funds were not properly utilized and accounted for as follows—

(b) Funds Not Accounted For: K3,809,575.51

Most payments were made in the names of accounting officers for workshops/seminars, staff allowances and other expenses and these were paid without complying with Government regulations in respect rates and procedures. The responsible cashiers are as shown below:—

<i>Name of Cashier</i>	<i>No. of VR</i>	<i>Total Amount</i>	<i>Amount Signed for</i>	<i>Balance not Accounted</i>
		<i>K</i>	<i>K</i>	<i>K</i>
S. A. Tembo f/s	17	3,220,900.00	1,885,600.00	1,335,300.00
S. C. Mtawali f/s	11	372,660.00	-	372,660.00
P. N. F. Chaonekera f/s	17	<u>2,101,615.51</u>	<u>-</u>	<u>2,101,615.51</u>
		<u>5,695,175.51</u>	<u>1,885,600.00</u>	<u>3,809,575.51</u>

(c) Fuel Not Accounted For: K2,990,200.00

An examination of payments in respect of fuel purchases made between April and November, 2004 disclosed that a total of MK2,990,200.00 was paid to fuel suppliers, but no record was

produced to account for the fuel bought. The fuel was not recorded in the fuel register and there was no satisfactory explanation on whether the fuel was delivered and how it was disposed of. Below is the summary of the payments—

<u>Period of Payment</u>	<u>No. of Chqs</u>	<u>Payee/Supplier</u>	<u>Amount</u>
			<i>K</i>
April—May, 2004	11	K.B.P. Malawi	1,529,100.00
May—Nov. 2004	37	Capital Fuel Station	1,461,100.00
		TOTAL	<u>2,990,200.00</u>

At the time of writing this report, I had not received any response from the Controlling Officer.

STATUTORY CORPORATIONS

32. An audit of financial and stores records of the Department of Statutory Corporations was completed in October, 2005. The audit disclosed some weaknesses in financial control which were communicated to the Comptroller in my report dated January, 2006. The report highlighted the following observation—

Payments Made Without Supporting Documents: K1,041,800

Treasury Instructions stipulate that vouchers must be fully supported before effecting payments.

An examination of payment vouchers for the period October 2003 to June 2005 disclosed that vouchers totaling K1,041,800 were processed and paid without supporting documents, contrary to Treasury Instructions. Consequently, the propriety of this expenditure could not be ascertained.

At the time of reporting, I had not received any response from the Controlling Officer.

LANDS, PHYSICAL PLANNING AND SURVEYS

33. An audit of the payroll, advances and establishment records of the Ministry Headquarters was completed on 21st May 2005. The audit disclosed some weaknesses in financial control which were communicated to the Controlling Officer in my report dated 28th November, 2005. The report highlighted the following observations—

(a) Salaries Not Signed For By Payees: K66,341.65

Treasury Instructions stipulate that cash payment of salary must be signed for or thumb printed on receipted voucher by the payee in the presence of a witness.

An examination of payrolls for the period July 2004 to February 2005 disclosed that salaries amounting to K66,341.65 were not signed for by the payees as required by Treasury Instructions.

It could not be established how the money was accounted for. Details are appended below:

<u>Month</u>	<u>Payee</u>	<u>Man No.</u>	<u>Amount</u> K
July 04	Nyoni L. L.	195299/311/296	4,969.96
July 04	Mwale G. P. K.	308775/420/001	6,591.44
Aug 04	Kalipinde V. A.	105820/420/001	13,593.54
Aug 04	Macheso J. F.	152056/420/001	12,568.13
Aug 04	Phiri L. R.	159711/421/001	6,364.09
Aug 04	Cheka A. G.	378595/891/004	3,011.94
Sept 04	Kaonda M. K.	169028/420/001	8,850.00
Sept 04	Mamu E	328971/310/298	2,789.00
Sept 04	Kanyika V. T. L.	189167/3111/298	3,572.55
Sept 04	Banda S. G. N.	207920/311/294	<u>4,031.00</u>
		TOTAL	<u>66,341.65</u>

- (b) Salaries Signed For On Behalf Of Payees Without Authority: K590,267.36

Government financial regulations stipulate that salary of an officer may be paid to a third party on production of written authority from the payee authenticated by a Human Resource Officer or the employee's senior officer.

An examination of payment vouchers relating to the period July 2004 to February, 2005 disclosed that salaries amounting to K590,267.36 were signed for by third parties without written authority from the payees.

It could not be established whether the salaries were paid to the rightful beneficiaries.

- (c) Salary Received Voucher/Acquitted Vouchers Not Produced For Audit Examination: K2,614,306.25

An examination of vouchers disclosed that received vouchers totaling K2,614,306.25 were not produced for audit examination and it could not be established how the amount was accounted for. Details are appended below—

<u>Month</u>	<u>Pay Point</u>	<u>Payee for Staff</u>	<u>Amount</u> <u>K</u>
July 04	175	Pepeyao J. J.	332,359.07
July 04	257	Milambe F. J	114,787.41
July 04	257	Milambe F. J.	181,644.64
Aug. 04	257	Chimphamba M. S.	129,696.75
Sept. 04	175	Pepeyao J.J.	47,796.92
Sept. 04	175	Pepeyao J. J.	33,531.82
Sept. 04	175	Ndove E. W.	100,796.40
Sept. 04	175	Chimphamba M. S.	129,696.75
Sept. 04	175	Pepeyao J. J.	136,765.59
Oct. 04	257	Pepeyao	228,566.86
Oct. 04	257	Pepeyao	136,765.59
Oct. 04	257	Chimphamba M. S.	177,320.18
Nov. 04	257	Kamwendo K. Z	86,230.20
Nov. 04	257	Kamwendo K. Z	269,821.01
Nov. 04	175	Pepeyao J. J.	355,149.62
Nov. 04	176	Bosa K. B	148,111.44
Nov. 04	176	Bosa K. B	5,266.00
		TOTAL	<u>2,614,306.25</u>

(d) Duplication of Payment of Basic Salary: K161,038.85

An examination of allowance analysis for the period from January 2004 to September 2004 disclosed that basic pay for some members of staff amounting to K161,038.85 were duplicated. Details were provided in my report dated 28th November 2005. There was no indication that the basic pay relating to double payment had been recovered from the officers concerned.

(e) Duplication of Payment of Overtime Allowance: K11,700.00

A further examination of allowances disclosed that overtime allowances for the officers listed below totaling K11,700.00 were duplicated during the month of September 2004.

<u>Name</u>	<u>Man Number</u>	<u>Amount</u> <u>K</u>
Malijana A.	300444/711/294	1,950.00
Mtiessa L.	313445/711/294	1,950.00
Chimzimu P. C	139715/711/294	1,950.00
Chinyoni V. K	354778/711/294	1,950.00
Mdala J. A.	311261/711/294	1,950.00
Zembenikumowa W.	322661/711/294	1,950.00
	TOTAL	<u>11,700.00</u>

(f) Duplication House Allowances: K185,200.00

An examination of allowances for the period July 2004 to January 2005 disclosed that payments of house allowances to some officers were duplicated. There was no evidence to show that the overpayments had been recovered. Details are as follows—

<u>Date</u>	<u>Name</u>	<u>Man Number</u>	<u>Amount</u> <u>K</u>
July 04	Nyirenda J. J.	365456/002/016	1,500.00
Aug 04	Salifi B.	139337/002/016	6,000.00
Sept 04	Chiumia	106203/311/297	18,000.00
“	Chikhadze A. M. D. M	193472/311/294	14,800.00
“	Chirwa K. S. S.	146170/311/294	19,800.00
“	Maseya L. L.	387292/311/294	11,800.00
“	Namulu B. L	191619/311/294	11,800.00
“	Phiri N.	146543/002/016	1,500.00
Jan 05	Nyirongo P. C.	211893	<u>100,000.00</u>
	TOTAL		<u>185,200.00</u>

(g) Dormant Advances: K1,757,788.95

Treasury Instructions require, among other things, that advances must be recovered fully and records must be properly maintained to avoid over recoveries and loss of public funds through non-recovery of advances.

An examination of advances records disclosed that advances totalling K1,757,788.95 granted between 2002 and 2004 were dormant at the time of audit and there was no evidence to show that measures would be put in place to ensure speedy recovery of the advances.

At the time of writing this report, I had not received any response to my report on the matters.

EDUCATION, SCIENCE AND TECHNOLOGY

PAY PARADE: TEACHERS SALARY ARREARS FOR THE PERIOD 1999-2004

34. Between May and June, 2005, the National Audit Office, in conjunction with the Ministry of Education, conducted a pay parade for the teachers' salary arrears for the period of 1999 to 2004. A grace period of twelve months was provided for by management in order to allow those officers who might have failed to collect their salary arrears to do so. The exercise gave rise to the following observations which were communicated in my report dated June, 2006—

(a) Cash Balance Not Paid Out: K43,221,438.18

From the three pay parades, a total of K43,221,438.18 was not paid out as expected due to the fact that some payees did not turn up, while others were deceased. At the time of writing the report, management indicated that cash was still on hand at the various Education Divisions and in that regard, management undertook to set up cash count teams in order to bring on charge and bank or remit the cash balances to Ministry of Education Headquarters. The disposal of the cash balance totalling K43,221,438.18 kept at the various Divisional Offices was not known at the time of writing the report. Details of the balance are as follows—

<u>Division</u>	<u>Unclaimed</u> K	<u>TAX</u> K	<u>DECEASED</u> K	<u>O.P.R.</u> K	<u>TOTAL</u> <u>BALANCE</u> K
NRED	3,397,868.01	661,895.55	599,088.32	1,636,384.30	6,295,236.18
CEED	2,297,469.01	297,501.82	932,292.05	390,081.65	3,917,344.53
CWED	8,421,814.63	898,740.74	1,508,136.80	857,324.68	11,686,016.85
SEED	1,666,561.30	69,140.67	681,572.41	944,133.30	3,361,407.68
SWED	2,027,012.00	310,725.87	1,564,151.23	1,174,452.83	5,076,341.93
SHED	6,082,809.63	449,584.26	1,566,614.93	4,487,318.65	12,586,327.47
MIN.					
HQRTS	44,876.63	253,886.91	—	—	298,763.54
TOTAL	23,938,411.21	2,941,475.82	6,851,855.74	9,489,695.41	43,221,438.18

Note: O.P.R. = Over Payment Recovered

(b) Unclaimed Salary Arrears: K23,938,411.21

A number of employees on the arrears payroll did not report at the pay centres during the pay parade for various reasons. Some employees were not known by Head Teachers or Education advisors, while others were suspected to be stationed far and wide at various schools.

A considerable grace period was provided for in order to allow those who did not turn up to do so. It was arranged that any subsequent claims and payment of arrears should be witnessed by an auditor from the National Audit Office. Cash totalling K23,938,411.21 in respect of unpaid arrears was left with the cashiers pending subsequent payments. At the time of writing the pay parade report, no subsequent payments to teachers who did not show up for the pay parade had been reported to this office.

In view of the large amount of unclaimed salary arrears, it was concluded that not all the names on the arrears payroll were genuine. The salaries officers who prepared the arrears were responsible for those discrepancies on the arrears payroll. Unless the salaries officers could prove the existence of the named teachers and produce their letters of authority, management was advised to take appropriate action against them. I have not been informed as to how the cash balances in the Divisions were treated or disposed of.

(c) Cash Balances Not Brought On Charge: K9,489,695.41

Salaries officers at the Education Division Offices were responsible for preparing salary arrears and in some instances, entitlements were not correct. In part, this resulted into overpayment to some teachers. The pay parade recovered a total of K9,489,695.41 as overpayments on payrolls. The recovered amount was supposed to be brought on charge and banked. However, at the time of writing the report there was no evidence that this was done.

(d) Unremitted Tax: K2,914,475.82

Funding of arrears of teachers salaries was made by the Accountant General basing on salary arrears vouchers prepared by Ministry of Education which included PAYE Tax. Accountant General paid the gross amounts direct to the Education Divisions in the names of cashiers who distributed the cash to pay parade teams. Some cashiers remitted the tax money to District MRA offices while others did not do so because they were not properly instructed. A total of K2,914,475.82 balance was expected to be remitted to Malawi Revenue Authority at the end of the pay parade. There is no evidence that this was done.

(e) Arrears For Deceased Payees: K6,851,855.74

During the pay parade, some teachers on the salary pay roll were reported deceased. In that case a number of pay parade teams remitted the deceased's funds to District Assemblies where individual amounts were below K20,000 for distribution to beneficiaries. Cash amounting to K6,851,855.74 was left in the custody of the cashiers and was expected to be remitted to the Administrator General as is required by law.

At the time of writing this report, I had not received any response to my report issued on the matters.

CHIRADZULU SECONDARY SCHOOL

35. An audit inspection of the financial and stores records of Chiradzulu Secondary School was completed on 18th October, 2005. The audit disclosed some weaknesses in financial control which were communicated to the Controlling Officer in my report dated 6th January, 2006. The report highlighted the following observations—

(a) Use of Boarding Funds On Unrelated Activities—K80,000.00

An examination of boarding fees account for the period January, 2004 to October, 2005 disclosed that a sum of K80,000.00 was drawn on 3rd October, 2005 through cheque No. 000112 for activities on Forum for Advancement of Women in Malawi (FAWEMA). This is contrary to the rules governing the Fund which states that funds should only be used for the purpose intended. No explanation was given for using the funds for unrelated activity.

(b) Payments Without Supporting Documents: K361,030.00

An examination of payment vouchers, disclosed that between May, 2004 and October, 2005 a sum of K261,030.00 was paid out without supporting documents and, therefore, it was difficult for the inspecting auditors to satisfy themselves as to whether the payments were for intended purposes.

(c) Stores Items Not Accounted For : K191,340.25

It is a requirement that all receipts and issues of stores items should be accounted for through the stores ledger.

An examination of stores records disclosed that the school did not maintain a stores ledger for the items which were kept by the Headmaster. Consequently, the accountability of stores valued at K191,340.25 could not be ascertained.

At the time of writing this report, I had not received any response to my report on the matters.

THYOLO SECONDARY SCHOOL

36. An audit of the financial and stores records of Thyolo Secondary School was completed on 10th February, 2006. The audit review disclosed some weaknesses in financial control which were communicated to the Controlling Officer in my report dated 3rd August, 2006. The Report highlighted the following observation—

Payment Without Supporting Documents: K281,759.00

An examination of payment transactions revealed that between July, 2003 and February, 2006, the school raised payment vouchers and cheques totalling K2,901,262.40. However, out of the total amount, only K2,619,502.50 had supporting documents leaving a balance of K281,759.50 which could not be verified and the propriety of the expenditure could not be ascertained in the absence of supporting documents.

LUCHENZA SECONDARY SCHOOL

37. An audit inspection of financial and stores records of Luchenza Secondary School was completed on 7th February, 2006. The audit disclosed some weaknesses in financial control which were communicated to the Controlling Officer in my report dated 28th June, 2006. The report highlighted the following observations—

- (a) Payments Without Supporting Documents - Boarding and Computer Fund Accounts—K510,310.00

Treasury Instructions required that a payment voucher must be fully supported by an original invoice and other relevant documents which must be firmly attached to it.

An examination of payment vouchers disclosed that payments totaling K510,310.00 which were made between 11th February, 2004 and 8th October, 2005 from Boarding and Computer Fund accounts were passed for payment without supporting documents. Consequently, the propriety of this expenditure could not be ascertained.

- (b) Failure To Record Food Stuff In The Stores Ledgers: K1,831,735.00

Treasury Instructions require that a stores ledger for recording the receipts and issues of all stores items should be maintained by every institution.

An examination of stores records disclosed that the school did not record in the stores ledger foodstuffs valued at K1,831,735.00 which were purchased between 29th April, 2004 and 14th November, 2005. It was further noted that the Boarding Master of the school, Mr. W. B. Makoko, who was responsible for the stores records was also supplying food stuffs to the same school contrary to the provisions

of the Public Procurement Act. In view of the failure to maintain proper records, it could not be established how the foodstuffs were accounted for.

At the time of writing this report, I had not received any response to my report that I had issued to the Controlling Officer earlier.

HEALTH AND POPULATION

CHIRADZULU DISTRICT HOSPITAL

38. An audit inspection of the financial and stores records of Chiradzulu District Hospital was completed on 18th October, 2005. The audit disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 20th June, 2006. The report highlighted the following observations—

(a) Revenue Not Accounted For—K2,305,426.73

Ministry of Health Headquarters issued health profile books to Chiradzulu District Hospital valued at K2,305,426.73. It was observed that although the books were sold, the proceeds from the sale were not accounted for and it was further observed that sales were not substantiated by general receipts. There was no evidence to show that disciplinary action was taken against the officer(s) concerned and the money recovered.

(b) Revenue Not Banked—K118,620.00

Treasury Instructions require that revenue collected and receipted be banked intact.

An examination of revenue records disclosed that between February, 2004 and July, 2004 the institution collected revenue amounting to K118,620.00 from the sale of health profile passports. It was further disclosed that the amount collected was not banked as required by financial rules and regulations therefore, accountability of the funds could not be ascertained. There was no evidence to show that disciplinary action was taken against the officers concerned.

(c) Stores Not Recorded In The Ledger - K1,405,812.33

Procurement regulations require that stores items be recorded in the ledger and properly accounted for. An examination of the stores ledger disclosed that stores valued at K1,405,812.33 were not recorded in the stores ledgers. Consequently, the accountability of the stores could not be ascertained.

At the time of writing this report, I had not received any reply from the Controlling Officer.

THYOLO DISTRICT HOSPITAL

39. An audit of the financial and stores records of Thyolo District Hospital was completed on 8th February, 2006. The audit disclosed some weaknesses in financial controls which were communicated to the Controlling Officer in my report dated 28th June, 2006. The report highlighted the following observations—

(a) Failure To Account For Health Profile Books: K105,342.84

The Thyolo District Health Office on 20th September, 2004 purchased 9,400 Health profile books from Kris Offset and Screen Printers through cheque No. 493801 amounting to K132,077.05. The books were to be sold and the proceeds from the sale were to be accounted for in a Revolving Fund Account.

An examination of health profile records for the period from 20th September, 2004 to 1st March, 2006 revealed that Mr. B. T. Mvuwa, who was responsible for buying and selling the health passports, failed to account for K105,342.84 realised from the sales of the health passports.

(b) Payment Without Supporting Documents: K1,548,605.69

Treasury Instructions require that a payment voucher must be fully supported with relevant documents which should be firmly attached to the voucher.

An examination of payment vouchers disclosed failure by the office to comply with the above Treasury Instruction. It was noted that between November, 2004 and 23rd January, 2006, the office made payments totaling K1,548,605.69 without relevant supporting documents, consequently, the inspecting team could not ascertain the propriety of the expenditure.

(c) Payment Made For Undisclosed Goods and Services: K120,416.25

Treasury Instructions require that a payment voucher should contain a proper narration of the services being paid for to facilitate independent checks. Contrary to the instructions, between March, 2005 and January, 2006 payment vouchers totaling K120,416.25 were prepared and passed for payment for undisclosed goods and services. The propriety of this expenditure could not be ascertained.

(d) Fuel Coupons Not Accounted For: K387,000.00

The office opened and maintained a fuel coupons register for the purpose of recording receipts and issues. It was noted that three officers failed to account for fuel coupons totalling K387,000.00 which they collected and signed for in the register between October, 2005 and January, 2006 as follows—

K

Mr. O. D. Kumbuyo	274,000.00
Mr. R. F. Ndovi	20,000.00
Mr. Mlambuzi	<u>93,000.00</u>
	<u>387,000.00</u>

This matter was brought to the attention of Management of Thyolo District Hospital who agreed to take appropriate action against the officers but to date, I have received no progress report on the matter.

At the time of writing this report, I had not received any response from the Controlling Officer.

MANGOCHI DISTRICT HOSPITAL

40. An audit of financial and stores records of Mangochi District Hospital was completed on 20th April, 2006. The audit disclosed some weaknesses in financial controls which were communicated to the Controlling Officer in my report dated June, 2007. The report highlighted the following observations—

Payment For Work Not Completed (Casualty Ward): K458,230.00

The hospital engaged Mabro Plumbing and Painting Contractors of P.O. Box 51960, Limbe to carry out maintenance work at the casualty ward in January 2006 at a total cost of K458,230.00. Full payment was made to the contractor on voucher No 424 of 6th January, 2006 and Cheque Nos. 000481/468/467 even though work had not been completed.

At the time of audit which took place in March 2006, the work was incomplete and abandoned by the contractor. There was no evidence to indicate that measures had been put in place to ensure recovery of the amount from the contractor.

At the time of writing this report, I had not received any reply to my report on the matter.

HOME AFFAIRS AND INTERNAL SECURITY

MALAWI POLICE SERVICE: INVESTIGATIVE AUDIT OF PROCUREMENT AND DISTRIBUTION OF POLICE UNIFORM

41. An investigative audit of procurement and distribution of police uniforms by Malawi Police Service was completed on 14th February 2006. The audit disclosed some weaknesses in financial control which were communicated to the Controlling Officer in my report dated July, 2006. The report highlighted the following observations—

(a) Uniform Purchases Without Budgetary Provision: K819,863,156.28

The Malawi Police Service did not consistently comply with Government procurement regulations and tendering procedures. Use of verbal orders from top management seriously weakened the internal control system over procurement of uniforms. The use of Internal Procurement Committee (IPC) was disregarded and the provisions of the Public Procurement Act and Public Finance Management Act were not complied with. As a result, purchase of uniforms valued at K819,863,156.28, was made between 2003 and 2005 and yet the purchase of the uniforms were not budgeted for throughout the years mentioned. Further to that, the manner in which the suppliers were selected to supply the uniforms could not be ascertained during the audit. Details are as follows—

<u>Supplier</u>	<u>Period</u>	<u>Value</u>	<u>Propriator</u> K
Africa Commercial Agency	Dec 02-Nov 04	94,776,358.00	Abdul Karim-Local
Gatolite	June 03-Dec 04	268,208,584.10	Abdul Karim-Local
LIDO Electricals	May 03-Oct 04	43,976,313.60	Abdul Karim-Local
KASCO Enterprise	Feb 03-Nov 04	162,701,097.10	Abdul Karim-Local
L&G Tools & Engineering	April 03-May 03	15,397,500.00	Abdul Karim-Local
Novatech Engineering	May 02-Feb 03	10,417,750.00	Abdul Karim-Local
Total for A. Karim firms		615,084,298.00	
Commercial Trading Co.	Aug 02-Aug 04	39,578,880.00	Jack Kamwendo -Local
Songdoh Company	Aug 02-Aug 04	16,768,552.8	Kimu-Local
Genex Export cc (external)	Aug 01-May 05	101,328,024.54	Genex-RSA
BEDI Invest. Ltd (external)	Oct 01-Oct 04	66,638,096.14	BEDI-Kenya
TOTAL		819,863,156.28	

(b) Invoices For Uniform Not Delivered: K82,825,587.03

A verification of deliveries of uniforms and examination of suppliers' invoices at Police Headquarters and comparison with the suppliers' copies, disclosed that some invoices were raised for uniforms not delivered at Quartermaster. Management at Police headquarters were unable to establish the source and physically produce the invoiced goods which were noted from outstanding invoices claims reported earlier on by internal auditors. The amounts some of which were paid, were noted against the following suppliers—

<u>Invoicing Firm</u>	<u>No. of Invoices</u>	<u>Total Amount</u> K	<u>Propriator</u>
Africa Commercial Agency	1	3,710,320.00	Abdul Karim
LIDO Electricals	2	61,676.00	Abdul Karim
Total for Karim Firms		3,771,996.00	
Commercial Training Co.	4	6,695,150.00	Jack Kamwendo
Genex Export Co (external)	19	47,994,156.78	Genex-RSA
Bedi Invest. Ltd (external)	7	24,364,284.25	Bedi Kenya
Grand Total:		<u>82,825,587.03</u>	

(c) Payment For Goods Not Supplied: K106,169,096.49

Verification exercise at the Quartermaster revealed that some invoices were not supported with goods delivery notes and the invoiced uniform had no receipt vouchers. Management was not aware of the anomaly because of lack of coordination between the Finance Section and Quartermaster. Most suppliers were alleged to have sent their invoices direct to the headquarters for payment without reference to Quartermaster. In this situation, no internal checks were performed to ensure that all invoices from suppliers were for goods received at Quartermaster. The following is a summary of claims not supported by delivery notes—

<u>Supplier</u>	<u>No. of Invoices</u>	<u>Payment Period</u>	<u>Total Amount</u> K
Africa Comm. Agency	5	Dec 02-Oct 03	3,251,621.00
Gatolite	12	July 02-Nov.04	9,410,055.00
LIDO Electricals	10	Nov.01-Nov.03	98,366.00
L7G Tools	2	Nov. 03	5,250,000.00
Novatech Engineering	2	April—Nov. 03	1,027,500.00
Commercial Trading Co.	19	Aug.02- April 04	31,515,155.00
Genex Export cc (ext)	8	Oct. 03 - April 04	49,277,841.75
BEDI Invest Ltd (Ext)	4	Nov. 05	6,338,557.74
		TOTAL	<u>106,169,096.49</u>

(d) Excess Charges on Uniform Supplies: K295,756,604.40

An examination of invoices for supply of uniforms and also as observed by the Internal Auditors in their report Ref. No. iAT/C/1/62 of 1st November, 2004, revealed that most of the local suppliers were charging exorbitant prices for uniform supplies when compared with the foreign based suppliers.

A comparative analysis of prices resulted in the following excess charges on uniform supplied by local suppliers—

<u>SUPPLIER</u>	<u>PERIOD</u>	<u>INVOICED AMOUNT</u>	<u>COMPARATIVE AMOUNT</u>	<u>EXCESS CHARGE</u>
		K	K	
African Comm. Agency	Jan. 03—Nov. 04	85,805,708	36,800,804.62	49,004,903.18
Gratolite	Nov.03-Nov.04	195,277,352.70	48,796,132.14	146,481,220.57
LIDO Electricals	May 03-Nov. 04	33,791,063.60	10,179,125.32	23,611,938.28
KASCO Enterprise	Feb. 03— Nov. 04	120,251,567.10	54,330,349.41	65,921,217.69
L & G Tools	Aug 03	15,000,000.00	7,677,000.00	7,323,000.00
Novatech	Oct.02-Feb. 03	9,364,000.00	5,949,675.00	3,414,325.00
				<u>295,756,604.40</u>

An enquiry was made in order to establish reasons for the inflated prices by the local suppliers with respect to quality and durability. All those interviewed indicated that the uniform supplied by the foreign based suppliers was of high quality and durable when compared to consignments supplied by local suppliers.

It was further disclosed that in 2004, management at Malawi Police Headquarters instructed the Quartermaster to purchase blue uniform from KASCO and Gratolite. The reason for buying the blue uniform was said to supplement the Viscose Khaki uniform as was the practice in other SADC countries. When the uniform was delivered and samples distributed to police units, it was rejected because of poor quality and not suitable for police security services. It was, however, alleged that management decided not to return to the supplier the rejected uniform, but decided to use it for training. The uniform was used in one session and did not last. The invoice value of the uniform was K29,982,240.00

In accordance with the Public Finance Management Act, the excess expenditure of K295,756,604.40 could have been avoided if proper procurement procedures were followed. Secondly the value of rejected uniform of K29,982,240.00 was wasteful expenditure.

At the time of writing this report, I had not been furnished with a response on the issues.

TRANSPORT AND PUBLIC WORKS

42. REVENUE ACCOUNT

REVENUE UNDERCOLLECTION

VOTE: 400: Ministry of Transport, Public Works and Housing

Controlling Officer: Secretary for Transport, Public Works and Housing

Revised on listed items: MK1,146,969,552

Actual Collection: MK389,890,276

Under Collection: MK 757,078,276

Revenue was under collected on the following items.

<i>Budget Source</i>	<i>Cost Type</i>	<i>Type of Centre</i>	<i>Type of Receipt</i>	<i>Type of Revenue</i>	<i>Specific Revenue</i>	<i>Details</i>	<i>Revised Estimates</i>	<i>Actual Collection</i>	<i>Under Collection</i>	<i>% Under Collection</i>
							K	K	K	
1						Local				
	3					Revenue receipts				
		09				Civil Aviation				
			02			Non-tax revenue				
				21		Administrative Charges				
					023	Landing fees	60,000,000	16,576,278	43,423,722	
					024	Licence fees	900,000	683,255	72.37	
				22		Administrative Charges				
					101	Accommodation				
	100					And hire of Hall	140,000	-	13,402,359	
					102	Air navigation charges	36,000,000	13,402,359	22,597,641	62.77
					111	Concessions	850,000	603,800	246,200	28.96
					131	Institutional water water supply				
					138	Park entrance	900,000	300,146	599,854	66.65
					139	Passenger service Charges	260,000,000	99,032,063	160,967,937	61.91
				23	329	Sale of Publications	2,950,000	846,436	2,103,564	71.31
					336	Sale of tender documents	100,000	-	100,000	100
	06					Road traffic				

02		Non-tax revenue				
	21	Administrative fees				
		036 Driving licence fees	208,950,960	76,706,690	132,244,270	63.29
		037 Motor vehicle fees	78,108,642	20,151,475	57,957,167	74.20
		038 Motor vehicle and and inspectorate fees	76,428,112	20,859,431	55,568,681	72.71
		039 Motor vehicle and licencing fees	392,916,125	127,433,647	265,482,478	67.57
		040 Operator permit and authorization fees	26,540,713	12,673,750	13,866,963	52.25
		042 Driving school and instructor fees	85,000	-	85,000	100
18		Marine				
	02	Non-tax revenue				
		21 Administrative fees				
		008 Course fees	500,000	108,100	391,900	78.38
		22 Administrative charges				
		142 Port charges	<u>1,600,000</u>	<u>512,846</u>	<u>1,087,154</u>	67.95
			<u>1,146,969,552</u>	<u>389,890,276</u>	<u>757,078,276</u>	

I enquired from the Controlling Officer the reasons which led to under collection of revenue, but at the date of writing this Report, I had not received any reply

ROAD TRAFFIC DIRECTORATE

43. An investigative audit on the revenue collection at the Road Traffic Directorate was completed on 11th November 2005. The audit disclosed some weaknesses in financial control which were communicated to the Controlling Officer in my report dated 25th April, 2006. The report highlighted the following observations—

- (a) Retention and Use of Revenue Collections by the Road Traffic Directorate Without Treasury Authority: K83,353,724.53

The Public Finance Management Act No. 7 of 2003 stipulates, among other things, that government revenue must be banked intact.

An examination of revenue collection records disclosed that between February 2004 and July 2004 Management of the Road Traffic Directorate Headquarters collected cash from all Regional Road Traffic Directorate Offices including Road Traffic Directorate Headquarters and reportedly used it at the Directorate Headquarters to meet ORT expenses amounting to K83,353,724.53. There was no

documentary evidence from Treasury authorizing the retention of revenue. In addition no documents supporting the expenditure were made available for examination. The breakdown of the amount is as follows—

	K
Regional Road Traffic Directorate (N)	1,236,020.00
Regional Road Traffic Directorate (S) BT	34,231,359.62
Regional Road Traffic Directorate (S) ZA	446,745.00
Regional Road Traffic Directorate (C)	42,721,728.00
Road Traffic Headquarters	4,717,871.91

It could not be established how the K83,353,724.53 was accounted for.

(b) Refer To Drawer Cheques: K460,189.00

Treasury Instructions stipulate that refer to drawer cheques in respect of government revenue must be followed up within 14 days from the date the cheque is returned by the bank.

An examination of bank statements for the period February 2004 to June 2004 disclosed that refer to drawer cheques amounting to K460,189.00 were still outstanding at the time of audit, and there was no evidence to show that measures had been put in place to ensure speedy recovery of the amount.

At the time of writing this report, I had not received any responses to these matters from the Controlling Officer.

LABOUR AND SOCIAL DEVELOPMENT

44. REVENUE ACCOUNT

REVENUE UNDER-COLLECTED

VOTE: 370: MINISTRY OF LABOUR AND SOCIAL DEVELOPMENT

CONTROLLING OFFICER: SECRETARY FOR LABOUR & SOCIAL DEVELOPMENT

PROVISION: :K14,450,000

ACTUAL COLLECTION: :K1,733,250

UNDER COLLECTION: K12,716,750

Revenue was under collected on the following items—

<u>Budget</u>	<u>Cost</u>	<u>Type of</u>	<u>Type of</u>	<u>Specific</u>		<u>Revenue</u>	<u>Actual</u>	<u>Under</u>	<u>% Under</u>	
<u>Source</u>	<u>Type</u>	<u>Centre</u>	<u>Receipt</u>	<u>Revenue</u>	<u>Revenue</u>	<u>Details</u>	<u>Estimate</u>	<u>Collection</u>	<u>Collection</u>	<u>Collected</u>
							K	K	K	
1						LOCAL				
	3					REVENUE RECEIPTS				
		01				HEADQUAR- TERS				
			02			Non Tax Revenue				
				21		Administration Fees				
				016		Trade Testing	10,500,000	590,100	9,909,900	94.38
					018	Tuition Fees	1,059,000	595,000	455,000	43.33
					031	Pressure Vessels & Inspection	1,800,00	334,150	665,850	66.59
					033	Registration and Renewal of Factory Fees	1,800,000	214,000	1,586,000	88.11
			22			Administrative Charges				
					107	Certificate Replacement	100,000	-	100,000	100
							<u>14,450,000</u>	<u>1,733,250</u>	<u>12,716,750</u>	

I enquired from the Controlling Officer the reason which led to failure to collect revenue, but at the date of writing this report, I had not received any reply.

ENERGY AND MINES

REGIONAL FORESTRY OFFICE (SOUTH)

46. An audit inspection of the financial and stores records of the Regional Forestry Office (South) was completed on 29th November, 2004. The audit disclosed some weaknesses in financial control which were communicated to the controlling officer in my report dated 13th October, 2005. The report highlighted the following observations—

- (a) Failure to Repair a Government Vehicle by Mrs. Martha Nasho: K295,000.00

A review of motor vehicle running records disclosed that a vehicle (lorry) registration No. 047 MG 219 was involved in a road accident between January and February, 2004 while pursuing United Democratic Front Party functions by the former Deputy Minister of Forestry, Hon. Mrs. Martha Nasho. The repairs were to be done by Mrs. Martha Nasho at an estimated cost of K295,000.00. However, as at the date of audit no repairs had been effected.

- (b) Failure to Account for Fuel Purchases: K284,800.00

The office opened and maintained a fuel coupon register for the purpose of recording all fuel receipts and issues. However, the office failed to account for fuel worth K284,800.00 which was purchased between July and December, 2003. There was no other documentation to show how the fuel purchased was used.

The above issues were not fully addressed in a response from the Controlling Officer.

PART IV

RECOMMENDATIONS AND ACKNOWLEDGEMENTS

RECOMMENDATIONS

47. In the course of my audit of the 2005/06 Accounts of the Government of the Republic of Malawi each Controlling Officer was sent appropriate management letter with recommendations, regrettably, evidence has shown that these recommendations have not been given due consideration. A summary of my recommendations included—
- (a) There is immediate need to strengthen Audit Committees in all Ministries and Departments so as to speed up implementation of audit recommendations;
 - (b) Controlling Officers should make effortsto familiarize themselves with existing pieces of legislations and regulations;
 - (c) Procurement of goods and services should be executed within set processes and procedures;
 - (d) Losses of public funds and stores should be expeditiously investigated and reported to in accordance with the Treasury Instructions, and appropriate disciplinary action taken against officers concerned;
 - (e) Knowledge and skills of the accounting personnel should be regularly upgraded through training including refresher courses and workshops in order to improve the management of accounting books and records;
 - (f) Public Financial Management Reforms such as implementation of the Integrated Financial Management Information System (IFMIS) should be given serious attention by all policy makers.

ACKNOWLEDGEMENT

48. I wish to place on record my profound gratitude and appreciation to staff in my office who carried out their duties diligently despite resource 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 Controlling Officers and their staff. The cooperation enabled me to obtain information and documentation for the audit services. I trust that the cooperation will continue during the entire tenure of my office.

30th November, 2008